

PORTUGAL

Case Study of a Successful National Industrial Development Programme on “The Environmental Value Added Supplement to PRIME”

PRIME: A Tool to Embed Environmental Concerns into the Enterprise Sector

Within the third Community Framework Aid Program, Portugal approved an Operational Program of the Economy (POE) for the period from 2000 to 2006, with the strategic aim of strengthening the competitiveness and productivity of companies, participating in global markets and promoting potential sustainable development in enterprise activities.

One outgrowth of the POE is the Incentive Program for the Modernization of the Economy (PRIME), adopted in May 2003 and reoriented in 2005, with five lines of action: innovation and modernization; SME internationalization; diversification of energy and energy efficiency; vocational training; and partnerships and support activities.

PRIME was submitted to an *ex-ante* environmental analysis to test its coherence with the framework of environmental legislation in Portugal and to integrate lessons gained from experience with a previous programme (PEDIP II), one of which was the weak result arising from actions intended to promote Environmental Management Systems (EMS).

PRIME is multisectoral and national in scope. Actors include not only representatives of industry but also those from all of the economic sectors.

(1) Incentive Scheme for Enterprise Modernisation (SIME)

SIME is a key element of PRIME. It is through SIME that enterprises are stimulated to establish Environmental Management Systems not only by supporting their implementation but also by awarding a special incentive, the environmental value-added supplement (see below).

SIME promotes enterprise modernisation through stimulating modern and competitive enterprise strategies and by tackling strategic enterprise competitiveness factors, specifically in the areas of internationalisation, innovation, quality, environment, energy and qualification of human resources.

With respect to financial incentives, SIME operates in three ways: through repayable incentives; non-repayable incentives; and awards of accomplishment, which consist in converting part of a repayable incentive into a non-repayable incentive.

Incentive calculations are made through the aggregation of eligible activities in different expense groups:

- Group I: Productive tangible investment (real estate, buildings, equipment) and technological transfer (for MSE, technological transfer expenses may attain a level above 25% of productive tangible investment);
- Group II: intangible investment (innovation and technology, vocational training and others); and
- Group III: Foreign direct investment

Though the basic incentive rate is 30%, the incentive assumes different forms according to the expense group referred to above (supplements and awards of accomplishment are group specific). Each group, therefore, may have different types of supplements and awards of accomplishment aggregated to the basic incentive rate. Considering specifically the incentive for Group I, the basic rate may be increased through several supplements:

- Regional supplement, to be awarded according to a regional modulation (5% or 10% of repayable incentive);
- SME supplement and SME plus “young entrepreneur” supplement (10% or 15% of repayable incentive); and
- Environmental value-added supplement, which is a non-repayable incentive of 5%, applicable only to projects of SMEs that are not located in region NUT III of the Lisbon Conurbation (Grande Lisboa).

(2) The Environment Value-Added Supplement

As noted, enterprises that submit projects to SIME may have additional funds – a non-repayable incentive of 5%, called the **environmental value-added supplement (majoração ambiental)**.

This supplement is granted to **investment projects** resulting from the **strategic analysis of an enterprise** made on the basis of an integrated approach to several areas, such as the productive process, management, working conditions, marketing and the environment, among others. The project, therefore, includes essential investments for the activity, and the 5% supplement is calculated on the basis of a total “productive tangible investment”, i.e., the part of the investment devoted to the acquisition of real estate, building, equipment, etc., which is the biggest part of the whole investment (Expense Group 1).

This 5% supplement is awarded through the Ministry of Environment. It is an additional incentive from the Operational Program for the Environment (POA), which is structured along two priority areas: sustainable management of natural resources and integration of the environment in economic and social activities.

The supplement is awarded to SIME projects that prove to have environmental value. The intention is to promote projects that, through a **voluntary approach**, contribute to a higher environmental protection level than is required by current legislation. The supplement is granted as a non-repayable incentive up to a limit of 250,000 euros per installation and 350,000 euros per promoter. Since eligible actors come from the entire

economic sector (industry, trade, civil construction, tourism, services and transport), the rules concerning the granting of this 5% supplement vary slightly.

For all activities, the granting of this 5% supplement is awarded only if the project takes into account the necessary investments to proceed with an analysis of the unit's environmental performance in order to improve it. In addition,

- for **industry and energy-related activities**, the promoter is also required to be engaged in at least one of these objectives: adoption of best available techniques (IPPC); implementation of an EMS (registration in EMAS¹ is mandatory); the European Eco-label Award Scheme; or a significant reduction on greenhouse gases and acidification; and
- for the **other activities** (trade, civil construction, tourism, services and transport), the promoter must be engaged in the implementation of an EMS (for which, again, registration in EMAS is required).

These necessary conditions **are quantifiable and verifiable**. It is important to stress as well that compliance with all community and national environmental legislation is also a condition for applying for the 5% supplement.

This funding scheme embeds environmental actions into structural funds and rewards companies that seek to incorporate environmental initiatives into the core of their projects. In other words, the main purpose of the funding is to reward those enterprises that are forward thinking and that seek to address environmental issues in their projects, in an integrated and **voluntary approach**, to achieve a higher environmental protection level than is required by current legislation.

It is also important to consider synergies with the policy context. This initiative integrates the use of EMS into a broader environmental policy and legal framework and promotes linkages between EMS and Best Available Techniques, the IPPC Directive, the European Eco-label, climate change (reduction of greenhouse gases) and acidification.

¹ Both environmental management systems (EMAS and ISO 14001) could both be financed by SIME, but only EMAS registration is eligible for the 5% value-added supplement.