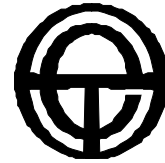


# GREEN CAPITAL

'Advancing Corporate Sustainability'  
AN INITIATIVE OF TOTAL ENVIRONMENT CENTRE



## Pushing and pulling towards sustainable procurement in New South Wales

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The DEC is committed to supporting the public debate on sustainability issues. This project is part of our program designed to build sustainability capacity within the community, business and government.

The views expressed in this project are not necessarily those of the DEC.

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## **Executive Summary**

This paper's aim is to highlight a number of mechanisms that could promote the procurement of sustainable products and services within NSW. It has been written for employees of federal, state and local government, large institutional buyers and the non-government sector and was assisted by those that have some experience and knowledge working with NSW government purchasing policy.

Due to the time constraints of the forum held on 27<sup>th</sup> April, '05 it was not possible to address all of the issues presented in the issues paper (see appendix 1 for unaddressed issues). These recommendations have been developed by Total Environment Centre and have not been endorsed by Department of Environment and Conservation or the attendees of the forum. The recommendations have been divided into the three relevant sectors: industry, government and non-government sector.

### **Recommendations - Government Sector**

1.1 Federal, state and local governments to develop policy statements, targets, guidelines and implementation programs which provide departments and agencies with a clear mandate to purchase sustainable products and services.

1.2 Federal, state and local governments to develop formal partnerships across jurisdictions to work collaboratively and consistently on developing sustainable buying guidelines.

1.3 Government agencies develop in partnership with an industry association, reporting and training guidelines for SMEs on sustainability reporting (see 2.1)

### **Recommendations – Large institutional purchasing organisations:**

2.1 Industry association to partner in development of reporting guidelines and training for SMEs on sustainability reporting (see 1.3)

2.2 Global Reporting Initiative's supplement for SME's is promoted among large institutional buyers.

2.3 Encourage the use of independent evaluation bodies such as ISO14001 or equivalent standards to reduce evaluation and monitoring costs.

### **Recommendation – Non-government organisations**

3.1 Non-government sector should participate in the application and development of research and development grants and working groups in partnership with industry, government and academic institutions.

## Background

This project has been managed by Green Capital, the corporate social responsibility program of the Total Environment Centre (TEC). The project was funded by the Department of Environment and Conservation (NSW DEC). Green Capital conducted eight interviews with individuals from businesses and organisations with an involvement in sustainable supply chains approaches. The results were collated into an issues paper which developed the ideas of the interviewees into a set of draft recommendations.

A forum was attended by 18 representatives of large institutional buyers, state and federal government representatives and was chaired by the Associate Director, Green Capital, Tony Mohr. The forum was held at National Bank's North Sydney office on Wednesday 27<sup>th</sup> April, 2005.

The recommendations and views presented by the attendees were then compiled into a position paper. A draft of the position paper was submitted to DEC for review in 13<sup>th</sup> May '05, permission to release the draft paper was provided by DEC on 30<sup>th</sup> June, '05. Comments were then received from the Department of Commerce, DEC and Local Shires and Government Association. These comments have been incorporated into this final document.

## Introduction

To begin a discussion on sustainable procurement management a description of the two terms in their broadest sense is required. Procurement management is how an organisation selects and purchases products and services from its suppliers. It includes the selection of products and services, the monitoring of the performance of services and products and their final disposal. Traditional supply chain management is based on 'value for money' criteria such as cost, delivery performance, service, quality, reliability and other values.

The three tenets of sustainability are environmental, social and financial considerations. A broad definition of a sustainable organisation is one that measures, reports and improves its environmental, social and financial performance. Moving beyond traditional 'value for money' criteria to a sustainable approach to procurement includes adding environmental, and social criteria.

**Traditional** procurement performance criteria: upfront cost, delivery performance, availability, service, quality, reliability and technology.

**Sustainable** procurement performance criteria: whole-of-life cost, delivery performance, availability, service, quality, reliability, technology, environmental aspects (energy and water efficiency, recyclability, by-product emissions etc.) and social issues (poverty eradication, international equity in the distribution of resources, labour conditions, human rights etc).

## Life costing versus capital costs

When assessing which good or service to buy, cost is usually the most heavily weighted factor in the decision even when sustainability criteria are introduced, with limited assessment of environmental costs and end-of-life impacts. However, when comparing costs, life cycle costs that incorporate sustainability criteria should be the basis of any reputable comparison.

Including life cycle costs is essential for sustainable procurement management because much of a product's environmental impacts occur after the initial purchase. For example, if a printer is unable to print paper double sided, paper costs can double along with environmental impacts of paper use. Similar issues arise from energy use, toner use and disposal, the life of the machine and its end-of-life disposal cost.

## Business case

The business-case for pursuing a sustainable supply chain are many: They include:

- Protection of reputational and regulatory risk shifting responsibility to suppliers to ensure they are not breaking the law or engaging in unethical practices or unacceptable social and environmental practices
- Provision of a competitive advantage to the purchasing organisation by providing a comprehensive understanding of their supplier's activities and ensuring their ability to sustain long-term contracts
- Allows government organisations to display a proven commitment to progressing sustainability within the public forum
- Ensures industry stays in step with international legislation which may impact their ability to supply major export markets
- Provision of competitive advantage to suppliers that are seeking to find a market niche in offering sustainable products and services
- Nurturing of staff loyalty as it provides evidence that the organisation is committed to social, ethical and environmental best practice

*"If one of our suppliers does something illegal the media isn't going to be mentioning the suppliers name, its going to be ours" Industry representative.*

## Case studies of sustainable procurement

Marks and Spencer are one of the largest retail organisations in the UK. Marks and Spencer has established best practice codes in its procurement on genetically modified foods, chemicals, PVC, pesticides and clothing dyes. If a manufacturer breaches the code Marks and Spencer hold the right to a) refuse any order that breaches the code b) hold the manufacturer/importer/exporter responsible for any damages or loss caused by products not complying with the Code of Practice<sup>1</sup>.

*“Our founders believed that building good relationships with employees, suppliers and wider society was the best guarantee of long-term success.” - Marks and Spencers: Corporate Sustainability Report, 2003/4*

In 1999 the Ford Corporation announced all of its manufacturing plants had been certified as ISO 14001. ISO 14001 is an international voluntary standard for environmental management that requires documentation of continuous improvement. Ford then required all suppliers to provide evidence of attaining ISO 14001 by the end of 2001 with full compliance being required by July 1<sup>st</sup>, 2003<sup>2</sup>.

The ACT government’s procurement department and sustainability office conduct pre-tender discussions with potential suppliers to develop an overview of current practices. The process provides suppliers an opportunity to discuss the issues of manufacturing and supplying sustainable goods and services. The information also provides the ACT government with a realistic view of the market for providing sustainable goods and services.

The NSW Government has developed the Waste Reduction and Purchasing Policy (WRAPP) in September 1997. The policy requires all state government agencies and state owned corporations to develop and implement a WRAPP plan to reduce waste in four scheduled areas:

- paper products
- office equipment and components
- vegetation material; and
- construction and demolition material.

WRAPP requires that priority be given to buying materials with recycled content where they are cost and performance competitive. WRAPP plans provide information on strategies each agency will undertake to reduce waste and increase purchases of recycled content products and provide data on:

- total quantities of scheduled wastes being generated and recycled; and
- total quantities of materials being purchased which contain recycled content<sup>3</sup>.

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<sup>1</sup> Code of Practice for clothes dying can be viewed at [www2.marksandspencer.com/thecompany/ourcommitmenttosociety/csr\\_reports/environmental\\_code\\_dyeing.pdf](http://www2.marksandspencer.com/thecompany/ourcommitmenttosociety/csr_reports/environmental_code_dyeing.pdf)

<sup>2</sup> Ford Corporate Citizen Report 2003-2004

<sup>3</sup> Cited from [www.wrapp.nsw.gov.au](http://www.wrapp.nsw.gov.au) on 24.6.05

Westpac have been a market leader in Australia in engaging its suppliers on sustainability issues. Westpac does not negatively screen suppliers but has developed a model that works collaboratively with its suppliers. Accompanying these discussions are the screening and engagement process of all new potential suppliers with a comprehensive checklist – Request for Proposal and Request for Information<sup>4</sup>.

IAG has developed a framework for assessing their suppliers on environmental criteria. Each supplier is rated based on their price, reliability, service and environmental performance. The weighting for each category is dependent on the service and product provided. The review process has been successful in raising their current and prospective supplier's awareness of their environmental performance and reporting processes.

### **Board-level internal champions**

Within all leading organisations on sustainable procurement one clear trend exists – all efforts have been led from the board. A number of organisations stated that the 'champion' for action on the supply chain and procurement was as high as board members and the Chief Executive Officer. Within government organisations it was also recognised that change had to be initiated from the top-down. In the cases where departmental heads had made clear positions supporting sustainable procurement rapid and tangible impacts were reported.

### **Recommendations – Government sector**

The Australian public sector requires substantial reform to progress sustainable procurement. Government legislation is failing to be adequately implemented to support changes in the public sectors spending activities. Since changes in legislation are extremely slow it was suggested that policy changes and implementation guidelines should be used to provide the mandate and progress sustainable supply chains within government.

#### **1.1 Federal, state and local governments to develop policy statements, targets, guidelines and implementation programs which provide departments and agencies with a clear mandate to purchase sustainable products and services.**

Without top-level support the activities of government procurement officers will continue with the status-quo. The majority of local, state and Commonwealth government policy was failing to provide the required support for procurement staff to progress sustainability.

Government policy must be supported with guidelines that support implementation. The guidelines should include;

- minimum sustainability criteria for product and service selection,
- simple and understandable ratings of products and services based on sustainability criteria,
- methodology for assessing products on sustainability criteria and

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<sup>4</sup> Westpac 2004 Stakeholder Impact Statement pp 49-51

- procedures in bringing together purchasing and maintenance departments to discuss life-time costs of procurement activities.

**1.2 Federal, state and local governments to develop formal partnerships across jurisdictions to work collaboratively and consistently on developing sustainable buying guidelines.**

Federal<sup>5</sup>, state<sup>6</sup> and local<sup>7</sup> government have developed a range of guidelines that support the introduction of sustainable procurement. This work is currently occurring in an ad hoc manner across jurisdictions which is resulting in a duplication of resources and efforts. A formal process must be developed to ensure duplication of efforts stop occurring within all levels of government.

**1.3 Government agencies to develop, in partnership with an industry association, a reporting and training guideline for SMEs on sustainability reporting (see 2.1)**

Before discussing this recommendation it should be noted that large industry groups have regularly argued that the introduction of sustainability criteria unfairly discriminates against SME's. They argue that large suppliers are more capable of adapting to the sustainability criteria leaving SMEs in their wake. This argument was strongly refuted in the forum held on 27<sup>th</sup> April, '05. It was argued by federal and state government representatives and large institutional buyers that the addition of sustainability criteria created new market niches. The market niches were quickly responded to by the flexibility and size of SMEs over their larger competitors. It was suggested that a compilation of how sustainability criteria had encouraged SME growth should be developed to resolve the ongoing reticence of the large industry groups to support the introduction of sustainability criteria into tender contracts.

Large multinational organisations have been under global pressure to move towards sustainability over the last three decades. However, for SMEs the language of sustainability is a recent addition to their dialogue with their customers and suppliers. To allow purchasers to adequately monitor and evaluate their indirect effects they must be provided with reliable and regular information from their SME suppliers. It is important that SMEs are provided with adequate training and assistance in reporting their activities that impact on their sustainable performance.

DEC is well positioned through its sustainability programs division to develop a dialogue with a receptive industry association to attend a roundtable with institutional purchasers, government and NGO's. The roundtable would discuss the practical barriers of developing and reporting on their sustainable practices. The outcomes of the roundtable and further dialogue would then act as the framework for other business associations on the most

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<sup>5</sup> The Commonwealth Procurement Guidelines can be downloaded from [www.deh.gov.au/industry/agency-performance/purchasing/index.html](http://www.deh.gov.au/industry/agency-performance/purchasing/index.html).

<sup>6</sup> NSW state programs include; Waste Reduction and Purchasing Policy is the overarching state government program to reduce waste, encourage recycling and uptake of recycled goods [www.wrapp.nsw.gov.au/](http://www.wrapp.nsw.gov.au/).

<sup>7</sup> Guidelines for purchasing have been developed by the Municipal Association of Victoria's ECO-buy program.

appropriate mechanisms for supporting their members to report on their sustainability activities.

## **Recommendations – Large institutional purchasing organisations**

### **2.1 Business association to partner in development of sustainability reporting guidelines and training for SMEs on sustainability reporting (see 1.3)**

Although it was recognised by the majority of the attendee's of the forum that practical and relevant advice and training was essential to assist SMEs, there was no consensus at the forum as to who should facilitate this process. TEC suggests that the process should be led by DEC through partnership with a industry association.

The following steps would support SME's and the market in progressing sustainable procurement:

- Using a consistent approach to information requests wherever possible
- Carrying out pre-tender consultation with potential suppliers to assist them in lodging complying tenders
- Providing tools to address gaps in information or performance, such as template sustainability policy (see recommendation 3.4)
- Involving relevant industry associations in providing assistance to members

### **2.2 Global Reporting Initiative's supplement for SME's is promoted among large institutional buyers.**

Transparent and open reporting allows the market place to assess and rank the activities of competitive organisations. Sustainable reporting initiatives such as the Global Reporting Initiative have been successful in progressing the sustainability agenda within the corporate sector. Reporting of suppliers activities is currently very limited within the market place. This is a major deficit as indirect impacts of the supply chain can have significant impacts on an organisation's sustainability.

Large institutional buyers should provide SMEs that have limited experience in sustainability reporting to the Global Reporting Initiative's SME reporting supplement. The supplement referred to as the 'High 5', offers step-by-step guidance and practical how-to advice on using the GRI Sustainability Reporting Guidelines. This allows SMEs to easily and effectively create sustainability reports that bring value to their businesses and communication practices<sup>8</sup>. Training and educational sessions should then be offered by industry associations to assist their members in this reporting procedure (see recommendation 1.3 and 2.1).

### **2.3 Encourage the use of independent evaluation bodies such as ISO14001 or equivalent standards to reduce evaluation and monitoring costs.**

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<sup>8</sup> For more information on the High 5 visit [www.globalreporting.org/workgroup/sme/intro.asp](http://www.globalreporting.org/workgroup/sme/intro.asp)

Conducting ongoing monitoring and evaluation of all suppliers has a high time and resource cost. The use of independent evaluation systems can remove the necessity for ongoing verification by purchasers. ISO14001 is an example of an internationally recognised voluntary standard for environmental management that requires documentation of continuous improvement.

## **Recommendations – Non-government sector**

### **3.1 Non-government sector should lead in the application and development of research and development grants and working groups in partnership with industry, government and academic institutions.**

Introducing sustainability throughout the supply chain of individual organisations and the market place is a complex process. Reliable and relevant research and development is crucial in assisting the transition from traditional to sustainable supply chain activities. The importance of non-government supported, industry-relevant research and development has been recognised as a vital component in progressing sustainable procurement<sup>9-10</sup>.

The research and develop should support and implement: the development of standards that promotes the market share of sustainable goods and services, develops assessment methodology for sustainable procurement and creates financial models that support industry to provide sustainable goods and services.

Research and development that supports market development of sustainable goods and services has been recognised internationally as a key driver for sustainable procurement<sup>11</sup>. Within Australia leading research organisations are developed under the Cooperative Research Centre (CRC) program.

The CRC Program was set up in 1990 to strengthen collaborative research links between industry, research organisations, educational institutions and relevant government agencies. They develop strategic long-term (7-year) agreements between research providers and research users in the public and private sectors. Joint funding occurs between the government and industry partners. The sustainable procurement CRC could fall into 2 of the 6 core industry participant groups - manufacturing technology and environment.

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<sup>9</sup> A model for this form of organization is the UK's Waste & Resources Action Programme. For further information go to [www.wrap.org.uk/about\\_wrap/](http://www.wrap.org.uk/about_wrap/)

<sup>10</sup> British Retail Consortium brought together a collaboration of high street retailers to pay for a consultant to develop a risk-based assessment on removing hazardous chemicals from their supply chain. The assessment provided was confidential and only available to the participating retailers.

<sup>11</sup> For example UK's The Waste & Resources Action Programme - [www.wrap.org.uk](http://www.wrap.org.uk)

## **Appendix 1 - Items not addressed from issues paper at forum on 27<sup>th</sup>, April '05.**

### **4. Issue – Tiered supply chains**

A purchaser's direct influence over the actions of its suppliers is greatly influenced by the number of intermediaries between itself and the supplier. The ongoing struggle of Nike to remove the use of sweatshop labour is an example of the challenges of dealing with remote and multi-layered supply chains<sup>12</sup>.

Within large organisations there is a shift towards consolidating the number of suppliers they have a direct relationship with – 'tiered hierarchical' supply chains. This allows them to reduce administrative costs associated with invoicing and account management. However, it is common for the winning contractor to engage smaller operators to complete the contracted work. This process reduces the level of direct influence that large purchasers can have on engaging suppliers on sustainability and could increase the complexity of monitoring and evaluating their activities.

#### **Constraints**

Large suppliers may be unable to adequately control or monitor the activities of their sub-contractors.

#### **Possible Solutions**

- 4.1 Ensure all tender documents specify that all reported activities include subcontractor's activities where the majority of work is sub-contracted
- 4.2 Increased information and training provided to SMEs to address sustainability issues

### **5. Issue – Staff Training**

A key challenge for large employers is ensuring the messages of sustainability are filtered down to all levels of staff. Large groups of employees represent a microcosm of the community and represent the spectrum of values and attitudes towards sustainability issues. Changing staff behavior was identified as a key challenge in progressing sustainable procurement within all organisations.

Selecting products based on sustainability criteria is a complex and time-intensive process. The Chartered Institute of Purchasing & Supply Australia Pty Ltd (CIPSA) is the peak industry body that provides procurement training. The NSW government is currently developing training packages in conjunction with CIPSA.

**Constraints** - Due to the huge number of government procurement officers, training is often difficult and is further complicated by a high rate of turnover.

#### **Possible Solutions**

- 5.1 Reporting and sharing of case studies of where sustainability has been successfully introduced into a supply chain from industry and government sectors

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<sup>12</sup> Nike is the first major apparel manufacturer to voluntarily disclose its entire supply chain – over 700 factories. Taken from "Nike Reveals its Supply Chain", Mail Tribune Online <http://www.mailtribune.com/archive/2005/0413/biz/stories/02biz.htm> cited on 15.4.05

- 5.2 Clear support from top-management for selecting sustainable goods and services
- 5.3 Provision of buying sustainability guidelines on smartbuy.nsw.gov.au<sup>13</sup>
- 5.4 Ranking based on sustainability criteria on smartbuy.nsw.gov.au
- 5.5 Introduction of sustainability curriculum into CIPSA's government training package for procurement officers

## **8. Issue – NGO involvement**

International NGOs have exerted sustained pressure on organisations to embrace sustainability within their supply chain<sup>14</sup>. Within Australia this pressure has not been replicated to the same extent. However, many leading organisations have ensured that NGOs have been involved and supportive of their moves towards sustainable procurement.

### **Constraints**

NGO sector does not have a peak position and delegated peak body that allows it to negotiate on behalf of its representatives on this issue.

### **Possible Solutions**

- 8.1 Development of working group amongst NGOs, government and industry groups in developing best standards for the top 50 products and services used by the public and private sector
- NGOs to assist in development of awards on sustainable procurement amongst industry and government
- NGO's apply more pressure on public and private buyers to improve the sustainability of their supply chain

## **9. Issue - Ecolabelling**

The Blue Angel and Nordic Swan are two recognised ecolabels in Europe. They are both government led initiatives that are partnerships with NGOs and industry groups. The criteria for labels has been developed for over 70 product groups<sup>15</sup>. Each standard is written by a technical panel and auditing occurs regularly across all product types.

Overall there is a low level of uptake of eco-labels within the Australian marketplace. The main concern is that the labels have a low level of recognition by consumers and the auditing

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<sup>13</sup> **smartbuy**® is a whole-of-government electronic marketplace developed by the Department of Commerce for New South Wales Government and its agencies and other authorised buyers and approved suppliers. **smartbuy**® provides approved government suppliers a secure Government to Business trading hub, where NSW government departments and other buying organisations can browse, select and purchase goods & services online.

<sup>14</sup> Examples include; Coalition of Immokalee Workers boycott of Taco Bell's parent company Yum! Brand to improve wages and conditions for Florida tomato pickers; Friends of the Earth (UK) high-street retailer's scorecard on removal of persistent, bioaccumulative chemicals and endocrine disruptive chemicals from their supply chain.

<sup>15</sup> The Blue Angel labeling site: [www.blauer-engel.de/englisch/navigation/body\\_blauer\\_engel.htm](http://www.blauer-engel.de/englisch/navigation/body_blauer_engel.htm) cited on 20/4/05

of standards is inadequate. However, Australian examples of successful ecolabelling projects including; Greenpower, Triple A tourism and GreenGlobe 21.

### **Constraints**

No recognised partnership exists between NGOs, government and industry for developing standards, auditing and monitoring an environmental labeling program. Highly technical and thorough standards are required to be documented.

### **Possible Solutions**

- 9.1 Stronger NGO participation in the development and implementation of eco-labels
- 9.2 Australian Standards to assist ecolabelling groups in developing credible sustainability criteria for the assessment of goods and services
- 9.3 Commonwealth government to establish agency to assist industry in developing standards that will assist recycling of products