



ECO BUY

GREEN PURCHASING AUSTRALIA REPORT 2009
SUMMARY DOCUMENT



Introduction

Australia, like the rest of the world, is facing the reality that the cumulative effect of the procurement, consumption, use and disposal of products and services is having on the environment.

Environmentally preferable purchasing, or green purchasing, and the broader practice of sustainable procurement, have become a priority for organisations seeking to respond to growing societal demands for reductions in environmental impacts, improved efficiency and reduced resource use.

Green purchasing refers to the consideration of environmental impacts in the procurement of goods and services. It is not limited to the purchase of green products alone, but deals more broadly with the full range of procurement alternatives from choosing not to make a purchase to making purchases with varying degrees of environmental impact.

The purpose of this report is to establish a baseline for the status of organisational green purchasing in Australia, including the drivers, barriers and opportunities for progress.

The Green Purchasing Australia Report was produced through an extensive process of desktop research plus stakeholder interviews which targeted a range of different organisations.

A full copy of the report can be found at ECO-Buy's website at www.ecobuy.org.au

Overall Status

The market for environmental goods and services has grown significantly in Australia in recent years and a number of studies have highlighted increasing consumer interest in the area of more sustainable products and services. The full report suggests that there is an established and growing number of consumers looking for more sustainable products and services^{1,2} and also predicts rapid growth rates in this market sector.

Despite green elements in purchasing policies in many public and private sector organisations, relatively few organisations have a specific green or sustainable purchasing policy. In addition, the information provided is often not sufficiently specific to provide practical strategies required to assist purchasing staff and ensure effective implementation.

Many organisations are attempting to establish their own governance frameworks and processes in the area of green purchasing. However, there is a relative absence of rigorously considered regulations to set a legislative framework for the environmental impact of the products and services available in Australia.

Lack of standards in the areas of labelling and environmental impact measurement have led to increasing concerns about the accuracy and relevance of many environmental claims and further contributed to the growing issue of "greenwash"; where in the marketing of products and services, environmental attributes are misrepresented, unsubstantiated or exaggerated. This has been cited by some organisations as a reason for the lack of organisational progress in green purchasing. There is also a need for organisations to commence reporting publicly on their progress in green purchasing and a set of commonly used indicators would assist in overall measurement and transparent reporting.

There is no single indicator which accurately measures the progress of organisational green purchasing in Australia. This report includes a number of indicators of progress such as sales of GreenPower to commercial customers in Australia. Uptake of GreenPower has grown steadily in recent years but still only represents less than 1% of total commercial power sales. Overall the report identifies that there is huge scope for improvement and that a significant opportunity exists for much more progress in this area.

1 Mobium Group (2008) 'The LOHAS (Lifestyle of Health and Sustainability) report'.

2 Net Balance Foundation and AccountAbility (2008) 'What Assures Consumers in Australia on Climate Change?'

Drivers of Green Purchasing

There are a range of organisational green purchasing drivers. In stakeholder interviews carried out for this report these were generally attributed to two main sources – the potential for government or industry regulation and a perception that green purchasing decisions are ‘the right thing’. These, as well as other drivers identified in stakeholder interviews and desktop research, are outlined below.

Environmental Concern

Many businesses take steps to embark on a green purchasing journey because the business owners or leaders hold personal motivations for pursuing greater environmental sustainability. These organisations often become green purchasing leaders as the organisation’s environmental values become central to their operation.

A sense of being seen to be ‘doing the right thing’ was mentioned by several organisations that were interviewed as part of this process. This aligned with broader corporate values and commitment to stewardship in their industry.

Threat of Regulation

There is significant value in pre-emptive measures. Having the processes in place to deal with regulation before it eventuates significantly reduces the risk of incurring penalties and the consequent negative brand impact. In the stakeholder interviews, regulation was mentioned particularly in reference to the forthcoming Carbon Pollution Reduction Scheme (CPRS) and also broader carbon reduction commitments made by the Australian Government.

Consumer Preference

Corresponding with the rise in consumer power is an increasing ability to influence the products and services offered by an organisation. When consumers begin to vote with their feet, companies take notice. As a result, organisations are motivated to review their purchasing to ensure it delivers more environmentally sound options in line with customer demands.

Competitors

When a competitor begins to establish green credentials, it is often a catalyst for others in the industry to follow to protect their market share.

Cost

Cost can act as either a barrier or driver to green purchasing. The rise in energy costs is a clear driver that is already encouraging companies to look more closely at energy usage and examine energy efficient product options.

CASE STUDY FUJI-XEROX AUSTRALIA– SUPPLY CHAIN

Sustainable supply chain management is not just about risk management. There is opportunity to use leadership influence to improve sustainability outcomes in the supply chain by engaging suppliers as partners on the sustainability journey. In order to maintain their relationship with Fuji-Xerox Australia (FXA), suppliers are encouraged to score well on the FXA sustainability code criteria and fulfil a commitment to continuous improvement. While FXA recognises that it is unrealistic to expect the business to walk away from well-established supplier relationships based on the sustainability criteria alone, where a high risk or high spend supplier consistently fails to address identified areas for concern the business will review its options.

Media

The continuous reporting of environmental success stories in business is often an attractive lure for organisations to start putting rigour into their green purchasing policies, processes and procedures.

Staff Influence

The actions taken by a few 'green champions' in the workplace can yield exceptional results. Recycling programs, reduced paper/energy/water use, and similar initiatives can be the humble beginnings from which fully-fledged green purchasing programs grow.

Efficiency

A more subtle driver of green purchasing behaviour may be a greater focus on efficiency, especially in the production stage or manufacturing environment. Lean manufacturing or lean production is an example of production practice that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful, and thus a target for elimination.³ A decision to shift to local suppliers to shorten delivery lead times, and thus reduce transport impacts, is another example of an efficiency-led influence on green purchasing.

Supply Chain Influence

The green purchasing journey of one member of the supply chain can provide the impetus for green purchasing to spread to other parts of the supply chain. Working across the supply chain provides the opportunity for organisations to reduce their total environmental impact. Suppliers can also benefit by differentiating themselves in the market by providing environmentally preferable goods and services.

Sustainability Strategy

A clear driver of green purchasing is the development of a sustainability strategy that impacts day to day operations. Many companies report that one of the early focuses of sustainability strategies is an examination of the environmental impact of their operations and the products they use.

Barriers to Green Purchasing

Despite the broad spectrum of organisations engaging in green purchasing, there appear to be a range of common barriers to green purchasing. The key barriers to implementation identified in the 2007/08 ECO-Buy State of Victorian Local Government Green Purchasing were: cost, product information/availability, staff awareness/engagement and supplier/contract issues. A number of these as well as others identified in stakeholder interviews and desktop research are outlined below.

Cost Perceptions

Many organisations express a view that green alternatives come at a premium cost. Few organisations take a holistic approach to procurement costs by considering the savings made by reduced consumption, longer term pay back periods or adopting more efficient and durable products as an offset for the sometimes premium costs associated with greener options. Instead, almost all organisations seek to minimise expenditure on each item they purchase.

Quality Perceptions

There is still a widely held view that many green alternatives do not perform as well as their less-green substitutes. Some organisations interviewed had trialled greener alternatives for products and had negative experiences. Perceptions that environmentally friendly products were of a different standard were still clear.

"Product quality and security is paramount. We can't take a risk on new alternatives." (Stakeholder statement)

3 Holweg (2007) 'The Genealogy of Lean Production'.

Leadership Buy-in

One of the key drivers identified in many organisations were the actions of staff to champion a grass roots green purchasing movement. The extent to which organisational leadership embraces and supports this movement could be described as variable. Some organisations have firm support from their leadership. Others report less success in getting their senior management on board and frustration at the absence of clear direction on how, and the extent to which, environmental considerations should be included in staff purchasing decisions.

Environmental Trade-offs

One of the most frequently mentioned barriers to green purchasing is the confusion or lack of understanding about what is actually the best choice based on environmental considerations. The complex trade-off of environmental components such as greenhouse gas emissions, waste, water use, toxicity, impact on biodiversity is daunting. When considered over the full lifecycle of a product or service and weighed up against numerous other purchasing criteria and alternative options, most purchasers find the decision near-impossible. The role of education, guidance and recognised certifications cannot be underestimated in overcoming this barrier. Many stakeholders reported the need for a practical framework to assist them through this process of assessment. Clearly, the scramble by many suppliers over past years to establish green credentials for their products has substantially muddled the waters in relation to product claims which have no independent accreditation or verification.

“There is some hostility in areas (to green purchasing priorities) – and some people just want clarity – there’s an opportunity to resolve the information gap – to make the case that a more sustainable choice should be made.”
(Stakeholder statement)

Measurement

Most organisations have no measurement of the extent to which they have committed to green purchasing. The difficulty in defining what is, and isn’t, a green purchase is a major factor. Without a robust measurement process, it is not surprising that sustainability and procurement managers find it difficult to understand current purchasing and improve performance in this area.

Discretionary Policy

Almost all policy relating to green purchasing in both industry and Government does not mandate an adherence to green purchasing objectives. The most commonly used wording in policy asks purchasers to “consider” the environmental impact of the purchase. This can have the unintended effect of placing a low priority on environmental impacts. This optional approach to policy can work, if supported by sufficient guidance to enable staff to understand how to balance environmental and other credentials of competing products and services.

Education

Poor staff awareness of both the need for green purchasing and how it applies to their role and/or function creates a barrier. Where purchasing decisions are not made through a central procurement department, or a green purchasing policy is not in place, devolved decision making by employees or agents means green purchasing may not be enacted in practice.

“Policy is the most practical thing but general education is necessary for purchasing decisions that your business does constantly, you need to understand the whole supply chain inputs, where it comes from, what impacts it has in other countries, who are the manufacturers, what else they make, who are the suppliers, manufacturing process... you need to appreciate why it’s more complicated than just certification; it sounds difficult but it’s not that hard really.”
(Stakeholder statement)

There was a striking consensus from stakeholders interviewed that better education around green purchasing-related sustainability issues is needed to increase leverage of practices and embed them throughout organisations. This includes educating more senior figures as well as employees outside of the procurement role. This will help reduce resistance and raise awareness of how green purchasing applies to an individual’s role or function. It also provides an understanding of how green purchasing contributes to achieving an organisation’s sustainability goals more broadly.

CASE STUDY WHITEHORSE CITY COUNCIL – STAFF TRAINING

Whitehorse staff have been trained in the use of their green purchasing guidelines, including the recommended procedures to follow and worked examples.

The Council also has a team of EcoLeaders from different departments across Council who meet regularly to share information about environmentally preferable products and work practices. General reminders to use green products and materials in council works are also promoted on the intranet, at staff inductions and through training on the purchasing system.

Prior to the submission of the ECO-Buy State of Victorian Local Government Report each year, staff from various departments are invited to attend a briefing on the green purchasing policy incentives and encouraged to include green specifications in their purchases in the year ahead.

Absence of Regulation

The role of regulation in Australia related to green purchasing is often debated. Some industry stakeholders comment that changes to green purchasing outcomes will only come with regulation.

There are however, a number of areas relating to green purchasing which are subject to regulation, such as Energy Star ratings for appliances. While most regulations are for products in the domestic sphere, where these product areas cross over into organisational purchasing business and government purchasing are also affected.

There tends to be four main areas of environment focused regulation directed at purchasing in Australia:

- ❏ **Statutory restriction** on the sale and use of certain substances including banned or restricted substances (for example Persistent Organic Pollutants, CFCs, vehicle exhaust emissions).
- ❏ **Minimum standards** on products and buildings. For example Minimum Energy Performance Standards (MEPS) on certain electrical appliances and Five Star energy efficiency standards on new homes in Victoria.
- ❏ **Compulsory labelling** schemes including energy and water consumption star ratings on appliances and fuel consumption labels on vehicles.
- ❏ **Trade Practices Act legislation** governing misleading or deceptive conduct (including environmental claims in marketing). This has been applied to help overcome the widespread issue of 'greenwash' in the marketing of green products and services.

Softer forms of government legislation and interventions, such as market mechanisms, also play a role; for example trading schemes such as the Carbon Pollution Reduction Scheme (CPRS). Other examples include subsidies to offset the costs of green products and taxes for environmentally damaging products.

While the regulations outlined above impact a number of significant purchasing areas, stakeholders appear sceptical that current regulation is effective.

Certified Credentials

A recurring theme in stakeholder interviews was frustration at the lack of certified credentials among green 'suppliers'. Organisations such as Good Environmental Choice Australia (GECA) received praise for introducing some analytical rigour with a trusted technical base. It was acknowledged that there is still a long way to go in regards to wider consumer awareness of the good progress their activities have made.

"Lack of knowledge of the alternatives for an SME with no resources to be searching for ages, especially if it's not what you're trained to do. There needs to be information at – for example – trade fairs." (Stakeholder statement)

Entrenched Practices

Existing practices often prove hard to break in the area of procurement. Many companies and organisations have invested heavily in entrenching preferred supplier arrangements in an organisation. Switching to a new supplier of green products is often a challenging and time consuming process.

Many of the organisations associated with green purchasing best practice have still not fully embedded it into their core business and strategy.

To advance the green purchasing agenda, products need to be fit for purpose, easy to implement and cost effective. Green purchasing criteria should be part of a wider procurement strategy and integrated into existing systems as far as possible. Moreover, organisations should challenge the need to purchase in the first place.

“Setting up a system is also a lot of work. But is an essential component of green purchasing – or it won’t be done by everyone in the company. Management systems are the guts of the implementation – so you need appropriate professionals in your organisation to implement it.” (Stakeholder statement)

Isolation of Procurement Functions

Isolation of the procurement function can often mean that green considerations are overlooked. Frequently, the management of environmental issues exists separately to the procurement function.

“Procurement shouldn’t happen in isolation. It is counterproductive to have your policy objectives, environmental objectives, financial objectives and then conduct procurement in isolation. Procurement and policy need to speak to other objectives.” (Stakeholder statement)

Greenwash

Lack of standards in the areas of labelling and measuring environmental impact have led to increasing concerns about the accuracy and relevance of many environmental claims, and this underpins the growing issue of ‘greenwash’, where in the marketing of products and services, environmental attributes are misrepresented, unsubstantiated or exaggerated. This has been cited by some organisations as a reason for the lack of organisational progress in green purchasing.

Conclusions and Recommendations for Action

Despite the barriers to green purchasing, there are many examples of organisations achieving good practice through a range of initiatives such as benchmarking performance and setting clear targets. In addition, NGOs and specialist organisations have positioned themselves as active stakeholders in the area by providing guidance, tools and advice to assist organisations through the barriers and complexity.

To address the challenges in progressing green purchasing, this report offers a set of key green purchasing recommendations. By taking up these recommendations it is hoped that organisations and regulators will be better equipped to seize the opportunities to make significant progress in green purchasing.

For Industry and Practitioners

Start somewhere

An interesting feature of green purchasing is the frequency with which the initial impetus comes from junior ranks in organisations. Many companies report that an initiative to start considering environmental impacts of purchases came from grass roots levels. As “lack of leadership buy-in” is cited as a barrier to further action, the challenge to organisations is to support and foster green purchasing initiatives from anywhere in the organisation, then create the environment for momentum to build. Many organisations report that it is important just to make a start.

Set targets

Among private sector and government organisations that have a policy which deals with environmental impacts of their procurement, most stop at a requirement to “consider” the environmental impact of purchases. Non-mandatory wording often results in limited green purchasing outcomes unless supported by proactive guidelines to assist employees in understanding how they should consider better environmental performance.

A useful approach to prioritise environmental sustainability in policy is the setting of specific targets for procurement of greener choices. These targets can take many forms (at the organisational, executive and individual employee level) and should be considered critical performance indicators. Examples of targets could include a proportion of expenditure on environmentally preferable goods and services, targets for individual products or performance indicators for senior staff.

Measure and report performance

In conjunction with setting targets organisations should measure and publicly report their progress towards those targets. One highly effective action is to map environmental impacts and risks within procurement categories to target priority areas of greatest environmental impact and risk. If you have measured your spend profile you will then be able to monitor your progress.

Seek systemic change

Green purchasing does not begin and end with the procurement function. To achieve best results a whole-of-organisation approach should be adopted to consider the impact of all parts of the business. Integration of green purchasing considerations into executive evaluation, internal communication, education and training, reward systems, transport policy and other business systems and processes helps to embed green purchasing and other sustainability principles as well. The aim should be for environmental considerations to be part of day to day purchasing decision making.

Focus on efficiencies not cost

Green purchasing should not be viewed as a costly exercise. One of the characteristics of a greener approach to purchasing is the tendency to question the real need for a purchase in the first place. Also, by approaching green purchasing with a broader cost perspective, organisations are likely to find the small premiums paid for some products are offset by substantial savings in others.

Work with suppliers

Working with suppliers allows organisations to consider their total environmental footprint and provides an opportunity for suppliers to respond to changing requirements. Supplier engagement communicates the importance that organisations attach to green purchasing. Organisations can also set policies that identify minimum requirements and specify specific requirements through contracts and tenders.

Use tools to consider lifecycle impacts

The true cost of any purchase should consider the environmental and social costs in addition to the financial costs. Organisations should consider the development or adoption of tools and decision frameworks to help understand the full lifecycle impact of major purchases. These tools, combined with training and targeted communication can bring about effective organisational change.

For Regulators and Governing Bodies**Enhanced regulation**

A key barrier to green purchasing is inadequate regulation. Improved regulation to help guide organisations would be welcomed by many sectors.

Provide tools

Regulators and government in particular can help facilitate increased green purchasing by equipping industry with tools and decision frameworks to guide decision making.

Collaborate

Standards and labelling in Australia require significant attention. In many sectors there are numerous overlapping and sometimes conflicting standards resulting in confusion and duplication. The question of how industry associations, NGOs and government collaborate to create a series of widely accepted standards is no easy task, but will be an important vehicle to enable better decision making by purchasers.

CASE STUDY VICTORIAN DEPARTMENT OF TREASURY AND FINANCE

The Department of Treasury and Finance (DTF) establish and manage state purchase contracts for the Victorian Government. Recognising the importance of engaging with existing suppliers around green procurement, in 2009 DTF worked with their sole supplier of stationery and office products to develop an environmentally preferable product range. This was undertaken in conjunction with ECO-Buy to ensure clear environmental criteria apply to the range. DTF then promoted the new range to their own staff and to all of state government by hosting a launch, presentation and supplier expo, attended by over 100 staff from across Victorian State Government.

Environmental requirements and evaluation criteria for the Desktop and Notebook Computer Request For Tender were developed by DTF, again in conjunction with ECO-Buy. This large and complex tender now includes requirements for tenderers to demonstrate their environmental responsibility and respond against specifications covering the environmental performance of the product across materials use, end-of-life considerations, energy conservation and packaging.

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