



Forum on Procurement for Innovation (OECD HQ, Paris, 5 October 2016)
Session 3 – Going beyond Innovation: Procurement in Support of other Policy Objectives

Parallel Session 3a:
Combining the Policy Objectives of Innovation and Sustainable Green Growth

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1. Public procurement can be an important driver for innovations that can advance green growth.

The OECD has been addressing GPP for quite some time. Back in 2002, the OECD Council adopted a recommendation to improve the environmental performance of public procurement.

Today, GPP is widely practiced in OECD countries; recent OECD work shows that as of 2014, 27 out of 32 countries had developed a GPP strategy at central level, and 2 others had procuring entities engaged in GPP.

Today, using PP to address sustainability goal is ever more important. 2015 was a milestone year, with the adoption of the 2030 Agenda for Sustainable Development, and the Paris Climate Agreement. These have helped to build momentum of political will and highlighting the need for innovation in technology and practices for the necessary transition to a low-carbon economy.

In fact, under the SD Goal 12 “Sustainable Production and consumption patterns”, *SDG 12.7* refers to specifically to the role of PP in fostering more sustainable growth.

While businesses and citizens all have roles to play in the transition to a sustainable and low-carbon economy, governments can lead by example in their everyday actions and investments.

Public procurement in most OECD countries is changing from a more limited administrative procedure to an instrument of strategic innovation, including achieving the Sustainable Development Goals.

But at the same time, the integrity and economic efficiency of public procurement must be maintained. So this is the challenge to be addressed in this session: How to promote the double goals of efficient and effective PP and Sustainability or GG objectives, and also the goal of driving green innovations.

2. Some country examples

The OECD has compiled some case studies on good practices in GPP (OECD, 2015). And we can look forward to country representatives on this Panel who can highlight examples from France and Poland.

Let me mention just a couple of examples of innovative approaches to drive green innovations through public procurement.

a) The procurement of the world's very first electric Ferry by the Norwegian Ministry of Transport in 2010. Some interesting facts:

- A one- year concession contract for an energy efficient and low-emissions ferry to link two villages
- Tender required a minimum of 15-20% improvement in energy efficiency over the existing diesel-powered ferry
- Four consortia (each comprising a ferry operator, a shipyard and an engineering company) competed.
- Bids were evaluated on the basis of 60% Price, and 40% Quality: the quality component was a sum of:
 - Energy use per passenger car-Km
 - Total energy use per year
 - Tons of CO2 emitted per year
 - Kilograms of NOx emitted per year
 - Innovation.
- The winning consortium proposed the Ampere Ferry, the world's first electric car ferry, offering :
 - 37% reduction in energy use per passenger car-KM
 - Elimination of NOx emissions
 - 89% reduction in CO2 emissions.
- The procurement of Ampere ferry also triggered other opportunities to help launch the market for low-carbon ferries.
- As the ferry tender did NOT specify technology but instead a clear green objectives, with a significant weight of 40% in the final evaluation.

This is also a great example that green public procurement can create “lead” market for innovations in new technology, processes and business models. This can often more cost effectively than direct support to green R&D, for example.

b) Lowering the carbon footprint of infrastructure, by the Department of Public Works of the Dutch Ministry of Infra and Environment.

- The Dutch government has achieved the inclusion of green criteria in all tenders, 100%, by 2015.
- They used the Most Economically Advantageous Tender (MEAT) methodology that includes both price and quality attributes, with full monetisation of the quality attributes including:
 - The CO2 performance Ladder, that rates companies on the basis of energy savings, material savings and the use of renewable energy;
 - The Sustainable Building Calculator (DuboCalc) provided to tenderers to assess the environmental impacts of the use of materials specified in the contract. Costs are derived from life-cycle analysis of materials, from extraction to demolition to recycling,
- This DuboCalc tool has been effective in facilitating the introduction of low-carbon materials for public infrastructure—

- It is an example of adaptive innovation, i.e. the diffusion of environmentally friendly products that are already available.

3. Further considerations

These are just a couple of examples and there are many more in the OECD reports and elsewhere. Green Public Procurement is widely practiced.

However, studies in the EU and the US have shown that compliance rates in the sustainable procurement requirements to be below 50%.

Public Procurement is a process with many steps, methods and dialogues. Shifting this sophisticated process towards “GREEN” procurement requires a change of mind-set, including among procurement officers who traditionally focus their attention on direct financial cost or purchase price only.

Recent reviews of case studies of green public procurement by the OECD Public Governance Committee and the Roundtable on Sustainable Development point to some areas for further considerations.

1) Shifting from “least cost” to “full cost” criteria. In other words, moving from least cost on financial price alone, to the full cost that accounts for societal and environmental costs.

- A UNEP Survey says 43% of procurer say “price” as the dominant awarding rule, ahead of value-for-money (V4M) (34%). This is a problem if up-front purchase cost of a low-carbon alternatives are higher, even with better performance during the ownership or use phase.
- If we go with the traditional financial cost alone, this can result in equipment with mediocre energy efficiency performance winning a PP contract, even if its total lifetime cost to the government could be might higher.
- To overcome this, the use of performance standards, Total Cost of Ownership (TCO) or Life-Cycle Costing (LCC) (reflecting cost of material extraction to disposal) is increasingly being used. These approaches account for the overall V4M, compared to financial price alone.
- The electric ferry example shows that environmental performance was an important criterion in the tender’s quality attributes, though not directly monetised.
- On the other hand, TCO and LCC make various costs more visible both to the supplier and procurer (as in the example of the Dutch Public Works Department).

2) Budget Rules, especially if we are to shift from the financial price to the V4M approach and accounting for the full social and environmental costs.

- Budget and resource restrictions remain an important barrier to green public procurement, e.g. generally, single-year budget reporting does not help the strategic use of budget, if it does not allow carry-over or borrowing to allow for more resource- and energy-efficient choices.
- Flexibility through multi-year financing option would help to prevent purchasing decisions that do not properly allocate risks or achieve efficiency due to strict budget regulations.

3) Information Barriers; the availability of resources and skill sets to conduct green public procurement remain a challenge. Measures for professionalization and training of procurement officers could help.

4) From National to International Procurement?

- Market scale can be a limitation for most countries or local governments' procurement of innovative green solutions. Procurement offices could link efforts across borders to issue common technical specifications or even issue a single tender. This could create a larger market and mobilise a greater number of private suppliers to complete.
- Some examples:
 - Energy Star, the efficiency standard created by the US EPA is now in use in Australia, Canada, the EU and the European Free Trade Association, Japan, New Zealand, Switzerland and Chinese Taipei.
 - The key is for Governments to cooperate to improve the inter-operability of environmental information and labelling schemes across borders
 - City of Paris worked with 10 cities across Europe to coordinate the procurement of new greener garbage trucks running on natural gas. The City governments recognised that only by collaborating could they reach the critical mass required to get suppliers to invest in an innovative new model.

5) From procuring products to procuring Services?

- This involves promoting new business models (that provide services rather than products that support material saving and lower environmental impacts).
- This means moving away, for example, from owning, maintaining and operating vehicles, to procuring mobility services.
- If proper greening incentives are embedded in the procurement design, this can result in lower energy and resource use, and the supplier will be encouraged to seek greener performance in the total cost of ownership. This way, the incentives of the supplier and buyer to decrease the full costs are aligned.

To sum up: Implementing greening objectives through public procurement does not happen overnight. It requires new procedures and tools, training and awareness-raising, and most of all transforming the culture from a least-cost to a full-cost/ or total-cost approach.