



SUSTAINABILITY PURCHASING TRENDS AND DRIVERS

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Benefits of Sustainability Purchasing

Sustainability purchasing provides organizations with wide-ranging benefits. Although some benefits, such as customer loyalty, are specific to businesses, many of the financial, management, environmental and socio-economic benefits of sustainability purchasing apply to many organizations. The drivers for engaging in sustainability purchasing may differ from organization to organization, however all organizations will experience some of the benefits outlined below.

The Sustainability Purchasing Network (SPN) created ***Guide to the Business Case and Benefits of Sustainability Purchasing***, summarizing the many benefits of sustainability purchasing. For more information on these benefits or for assistance in creating a business case for your organization's sustainability purchasing activities, please download the Guide from the SPN website at www.buysmartbc.com.

Sustainability purchasing offers **Financial** and **Non-Financial** Benefits:

The **Financial Benefits**

- Reduces costs by reducing material and utility costs, waste disposal costs, health and safety costs, operating, maintenance and replacement costs, legal and insurance costs and increasing operational and economic efficiencies.
- Enhances image and brand by attracting customers, helping to meet expectations for sustainable products, and enhancing license to operate with communities and governments.
- Eases regulatory burden by simplifying compliance with environmental, health and safety regulations, demonstrating due diligence, forestalling government regulation and oversight, and/or easing environment, health and safety reporting requirements.
- Improves access to capital for firms.

The **Non-Financial Benefits** include **Management Benefits**, **Environmental Benefits** and **Socio-Economic Benefits**

- The **Management Benefits** include demonstrating alignment with organizational goals and values, reduced business risks, improved supply chain management and product innovation, enhanced business opportunities, and effective human resource management by attracting and retaining talent and improved employee productivity.
- The **Environmental Benefits** include reduced and prevented waste, reduced resource use, reduced pollution and toxins, reduced greenhouse gas emissions, and maintained biodiversity.
- The **Socio-Economic Benefits** include improved wage levels and working conditions, enhanced human rights, improved employee health and safety, increased markets for sustainable products by stimulating demand, increased product development and lowered costs, a stronger local economy and reduced local taxes, support for vulnerable groups, increased community service provision and reduced public expenditures, enhanced economic opportunity and improved conditions for those in emerging economies.

A chart that provides a review of these benefits is included in Appendix A, page 62.

Executive Summary

Sustainable purchasing is a growing global trend. Increasingly businesses, governments, non-profits and other organizations are integrating social and environmental objectives into the purchasing process as a means to reduce their environmental footprint, leverage social benefits and foster a sustainable economy. This paper reviews global trends and drivers for sustainable purchasing and multi-lateral and regulatory developments that are advancing sustainability in the marketplace, and provides details on two case studies in sustainable purchasing.

It quantifies the trends in environmental and social purchasing the latter with a focus on fair-trade, diversity purchasing and ethical sourcing. It looks at the emerging role of government and universities in driving the sustainable purchasing agenda and assesses recent trends in sustainable purchasing collaboration, whether industry to industry, industry to non-governmental organization (NGO), or purchaser to supplier. It profiles developments in purchaser networking and capacity building, performance measurement and certification. The drivers for sustainable purchasing are also reviewed, including business drivers such as brand recognition, compliance, risk management, cost and innovation and global drivers encompassing corporate social responsibility (CSR) issues, globalization and offshoring, and the ripple effect of large purchasers such as Wal-Mart. Finally it reviews some of the recent multi-lateral developments and regulatory measures in Canada, UK, US, Europe and Asia that are propelling sustainable purchasing.

Major conclusions are that there is a global trend towards organizations developing sustainability purchasing programs, with many of them doing so as a means of implementing their sustainability or corporate social responsibility programs. Environmental considerations are typically ranked higher than social factors, though priority environmental concerns have human health implications such as toxics. Indeed, the greening of the supply chain was ranked as the number one supply chain issue for 2007. On the social side, fairtrade, diversity purchasing and ethical sourcing are showing strong growth trends. The ethical sourcing experience of large brands is starting to pay off in deep knowledge for how to reward and motivate ethical considerations with suppliers going forward, including a focus on supplier collaboration and capacity building.

Top product areas for sustainable purchasing programs include paper and paper products, janitorial goods and services, electricity, office supplies, equipment and furnishings, electronics and building materials and services. Top priority concerns of many purchasers are how to screen their suppliers and how to measure the sustainability impacts of their purchases. There are many documented barriers to sustainable purchasing programs, too, including product cost premiums, lack of time and resources, lack of management support and the need for tools, information and training. Governments and universities, i.e. the public sector, are

key drivers of sustainable purchasing, universities primarily driven by activist student bodies, and governments by leadership concerns.

Further analysis of sustainable purchasing trends reveals a strong move toward greater collaborations in the supply chain and with stakeholders, whether purchaser to purchaser, purchaser to supplier or purchaser to NGO. As a result of these collaborations, improved awareness, understanding and efficiencies are created. This helps advance a key priority concern of purchasers, which is impact and performance measurement, a trend that will affect how sustainable purchasing evolves in future.

Key business drivers are identified, including brand recognition, risk management, cost, and innovation. Global drivers are also reviewed, such as corporate social responsibility management systems, globalization impacts of outsourcing and offshoring and the large purchaser ripple effect. Finally, the paper profiles some key multilateral and government efforts to advance a sustainable supply chain and reveals that most of the activity is aimed at government procurement or the product manufacturing process.

In all, the paper concludes that sustainable purchasing promises to be a key driver of a sustainable economy. The supply chain will play a leading role in how sustainable production and consumption will evolve in future, affecting the fortunes of the planet and civilization.

Sustainability Purchasing Trends and Drivers

1. Introduction

Sustainability purchasing is a growing business and social phenomenon, as organizations around the world attempt to align their operations with their sustainability priorities, whether to source ethically, reduce their environmental footprint or to support their host communities. All kinds of organizations are being swept up in these developments, including local and federal governments, public sector institutions, non-profit organizations and businesses large and small. This naturally has a cascading effect on suppliers who need to anticipate these marketplace changes in order to meet the evolving requirements of their clients.

This paper attempts to document these trends and drivers toward sustainability purchasing as a resource for both purchasers and vendors looking to operate efficiently and with optimal social and environmental impact. The paper reviews global and Canadian sustainability purchasing trends and drivers and the regulatory context influencing the direction and pace of sustainability purchasing and provides two case studies to demonstrate sustainable purchasing in practice. With this knowledge, purchasers, vendors and governments will be better positioned to capitalize on the opportunities of sustainable purchasing for business and social value creation.

2. Definition and Methodology

Definition

For the purposes of this paper we define sustainability or sustainable purchasing as a management process used to acquire goods and services (“products”) in a way that gives preference to suppliers that generate positive social and environmental outcomes, and that integrates sustainability considerations into product selection so that negative impacts on society and the environment are minimized throughout the full life cycle of the product. Sustainability purchasing entails looking at what products are made of, where they have come from, who has made them, how they will be ultimately disposed – even considering whether the purchase needs to be made at all. Sustainability purchasing encompasses environmental, social and ethical dimensions and brings benefits to the environment and local and global communities and workers. (See page 5 and Appendix A, on page 62, for an overview of the financial, management, environmental and socio-economic benefits of sustainability purchasing.)

Methodology

The trends and drivers of sustainability purchasing were compiled through a comprehensive web-based literature review and key informant interviews. The case studies were developed through web-based research and personal interviews with company contacts.

3. Trends in Sustainability Purchasing

The following provides an overview of general trends in sustainability purchasing, including the green/environmental, social and ethical dimensions.

General Trends

Sustainability purchasing is a growing business trend in North America, as demonstrated by recent quantitative research. The number of organizations with sustainable purchasing policies is growing and more are planning to do so in the coming years. As the table below illustrates, once organizations adopt a corporate sustainability program they begin to develop and implement a sustainable purchasing policy. Indeed, from 2005 to 2007 the number of organizations with a general sustainability or environmental policy increased 7%, while the number of organizations with a sustainable or green *purchasing* policy rose 26%.¹ This suggests the number of organizations developing and implementing sustainable purchasing policies is likely to grow as they fulfill their organizational sustainability commitments.

Figure 1: Organizations with Corporate Sustainability Programs Adopt Sustainable Purchasing Policies

Study	Respondents	Corporate Sustainability (or Environmental) Policy	Sustainability (or Green) Purchasing Policy
EcoMarkets Report 2005 Green Purchasing	367 Purchasers in Canada	63%	34%
EcoMarkets Report 2007 Green Purchasing	700 Purchasers in Canada, US and Mexico	71%	60%
SPN Survey 2007 Sustainability Purchasing	58 Purchasers in British Columbia (mostly Greater Vancouver)	72%	41%
AT Kearny Study 2007 Sustainability Purchasing	25 Fortune 100 Companies in the US	60%	38%

As shown in the above table, a recent AT Kearny study of US Fortune 100 companies found that 60% had a corporate sustainability policy, and 38% had a sustainability purchasing policy. However, the study also found that in the next year there would be an increase in corporate sustainability purchasing. Companies projecting sustainability purchasing activities a year from now

¹ Note that a direct comparison cannot be made as respondents differ from year to year. In addition, the 2005 survey covered Canadian organizations, while in 2007 the survey was expanded to cover Canada, the US and Mexico.

reported that:

- 44% would require certification of suppliers compared to 22% today;
- 65% would track a set of sustainability metrics for major suppliers compared to 39% today;
- 70% would engage in joint process improvement with suppliers compared to 48% today; and
- 74% would reward supplier practices compared to 52% today.

The study also found that the number of companies deselecting suppliers for failing to meet sustainability criteria would be 70% one year from now, compared to 60% today, and 15% just five years ago (AT Kearney, 2007).

A 2007 regional survey of 59 Greater Vancouver purchasers, including business, government and non-profit organizations, indicated that over 40% of respondents had sustainability purchasing programs in place, a further 26% were starting to implement one, and 21% were thinking of implementing one. The survey found a trend towards increased sustainability purchasing in the next three years, as over 40% of those 47% respondents planned to implement a program within the next year, and another 10% within three years. As over two-thirds of respondents had a sustainability program in place (i.e. an organization-wide program to improve social and environmental performance), this reinforces the prediction that more organizations will be developing sustainability purchasing programs to advance on their overall sustainability commitments.

Figure 2: Greater Vancouver Sustainability Purchasing Programs and Targets (SPN, 2007)

Sustainable Purchasing Programs in Place					
	Yes	No	Starting to implement one	Starting to think about it	Don't know
Sustainability Program	67%	5%	12%	12%	3%
Sustainability Purchasing Program	41%	10%	26%	21%	2%
Plans to Implement a Sustainability Purchasing Program					
	Next 6 months	Next 12 months	Next 3 years	Already have one	Don't know
	17.5%	22.8%	10.5%	31.6%	17.5%

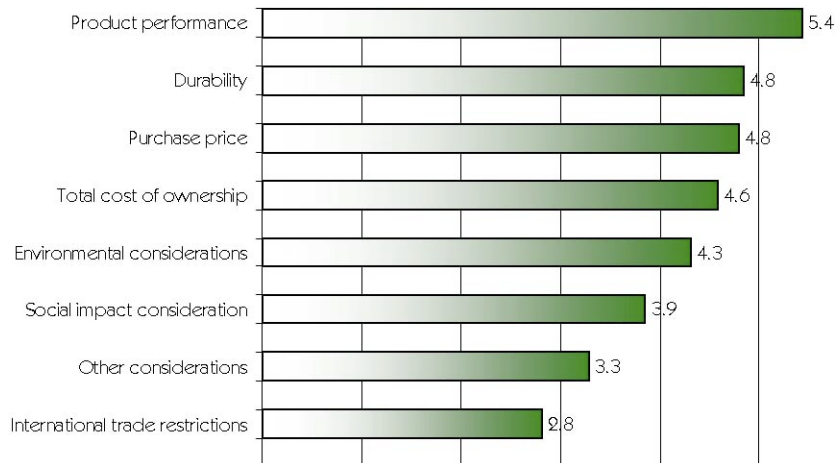
This same survey also assessed views on sustainable purchasing trends: 54% and 19% believe that sustainable purchasing is a strong trend and a very strong trend respectively in the marketplace, almost three quarters altogether. They similarly believed it was very important (60%) and important (33%) for their own organization to implement a sustainability purchasing program (SPN, 2007).

It is interesting to note the degree to which social and environmental considerations are moving up in importance in purchaser decision-making. The

Sustainability Purchasing Trends and Drivers

EcoMarkets Report ranked the following characteristics' relative importance in influencing purchasing decisions:

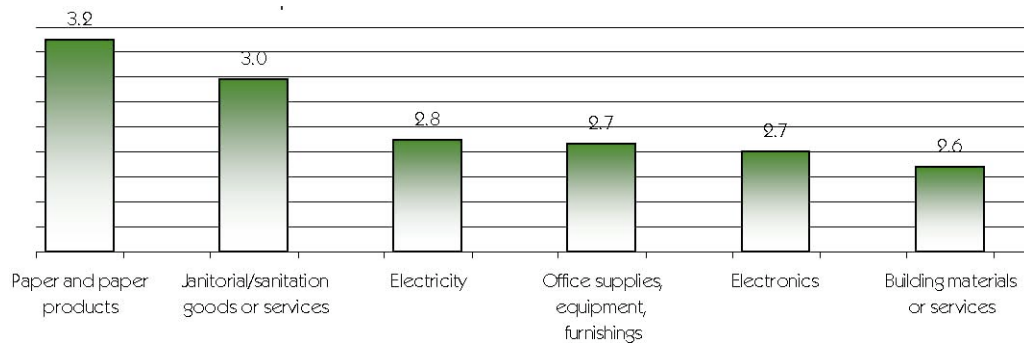
Figure 3: Importance of Factors Influencing Purchasing: Scale of 1 (least) to 6 (most important)



This study indicates that environmental and social considerations are ranked reasonably highly by purchasers, just behind product performance, durability and price. (Total cost of ownership, or TCO, has significant environmental and social factors embedded within its methodology, and thus could be considered a sustainability factor.) The statistics also reveal that social impact is of a lesser priority than environmental impact concerns.

Purchasers prioritize some product categories over others in applying their sustainable purchasing criteria. North American purchasers typically apply sustainability criteria to paper and paper products, followed by janitorial sanitation goods or services; electricity; office supplies, equipment and furnishings; electronics; and building materials or services, as seen in the following figure.

Figure 4: Frequency of Green Consideration When Purchasing General Goods & Services – Rating Scale 1 (never) to 4 (always)



A regional survey of purchasers conducted in Metro Vancouver in 2006 generated similar results, with electronic equipment mentioned most frequently, followed in order by office supplies and furniture, paper, waste management services, cleaning supplies and custodial services, and fleets, fuels and vehicles (SPN, 2006, p.3). Lower mentioned products include building and renovation services, hotels, travel and accommodation, catering, food and beverage

products, professional services, promotional products, clothing, uniforms and apparel and landscaping and groundskeeping (SPN, 2006, p.3).

The regional survey of purchasers also indicated that most purchasers were interested in learning more about 1) how to screen suppliers for the sustainability impacts of their products and services, and 2) how to measure their sustainability purchasing impacts (nearly two-thirds) (SPN, 2006, p.3). One half was interested in learning how to introduce sustainable purchasing to their organization and how to write a sustainable purchasing policy, interests of early entrants to sustainable purchasing. They were comparatively less interested overall in learning how to monitor and report on their sustainable purchasing programs, and work with suppliers to advance innovation and improve their sustainability performance, these latter two tasks of greater interest to more advanced purchasers.

Whereas this survey indicated interest in learning generally about how to engage in supplier collaborations was low (20 – 25%) (SPN, 2006, p. 12), nonetheless when asked of interest in participating in specific collaborative projects, many thought such supplier engagement would be worthwhile (over three-quarters), particularly to advance the growth of a sustainable economy (SPN, 2006, p.12). Roughly one-half was also interested in purchaser and supplier collaborations to increase their buying power to generate greater supply of sustainable products, to increase the number of sustainability purchasers, to educate suppliers and to create organizational efficiencies.

Purchasers identify a number of barriers to implementing sustainable and green purchasing programs, including: product cost premiums, lack of time or resources, lack of knowledge, lack of management support, need for tools and information and training (Jonk, 2005 and SPN, 2007).

Finally, supply chain analysts perceived the greening of the supply chain to be the number one supply chain issue for the start of 2007, ahead of vendor consolidation, supply chain globalization and supply chain risk: “from energy efficiency to alternative fuels to packaging and much more, the supply chain will increasingly be colored green” (SupplyChainDigest, 2006). It is expected 2008 and future years will see more of this trend.

These North American purchasing trends reports point to increasing up-take of sustainable purchasing policies and programs, albeit the field is populated with many new entrants. With future collaborations between purchasers and suppliers, these trends are likely to experience significant growth. More specific trends in green and social purchasing are explored further below.

Green Purchasing Trends

Green purchasing refers to purchasing that provides one of more of the following environmental benefits:

- Reduces and prevents waste
- Reduces resource use
- Reduces pollution and toxins
- Reduces greenhouse gas emissions

- Maintains biodiversity

Green procurement has increased in North America (US, Canada and Mexico) in the last three years, as reported in the 2007 and 2008 EcoMarkets studies. The 2007 report tracks an almost 100% increase in green purchasing since 2005, where those with a formal or informal green procurement policy rose from 34% to 60% of respondents (62% by 2008). In Canada and the US, the majority – 76% and 64% respectively – of government departments or agencies have green purchasing policies. In Canada, 51% of responding firms had a green purchasing policy, as did 57% of US firms, while in Canada 64% of non-profits had such programs alongside 55% of US non-profits (TerraChoice, 2007).

The AT Kearney study that analyzed the green purchasing practices of Fortune 100 companies found that 38% had a sustainability purchasing policy. Six out of eight sustainability metrics tracked by study respondents concerned environmental issues, indicating that green purchasing was a major focus of their programs, including use of recycled materials, impact of material waste, material toxicity, use of sustainable sources, energy use, and greenhouse gas emissions (AT Kearney, 2007).

The EcoMarkets Report reveals the following outlook for green purchasing over the next two years (based on 692 respondents from Canada, US and Mexico):

- 76% of organizations predict they will be more active in green purchasing,
- 21% of organizations predict they will be neither more or less active,
- 1% of organizations predict they will be less active (TerraChoice, 2007)

(The 2008 report which surveyed only Canada and US with 336 respondents revealed that 91% predict more activity in green purchasing over the next two years (TerraChoice, 2008, p. 13).

These predictions suggest a trend towards increasing green purchasing activity in the years ahead.

In Europe, membership of the “Buy-It-Green” Network has seen its membership of government purchasers more than double from 1997 to 2001, and more than triple since 2001 (Big-Net, no date), an indicator of the growth in green purchasing within Europe’s government sector.

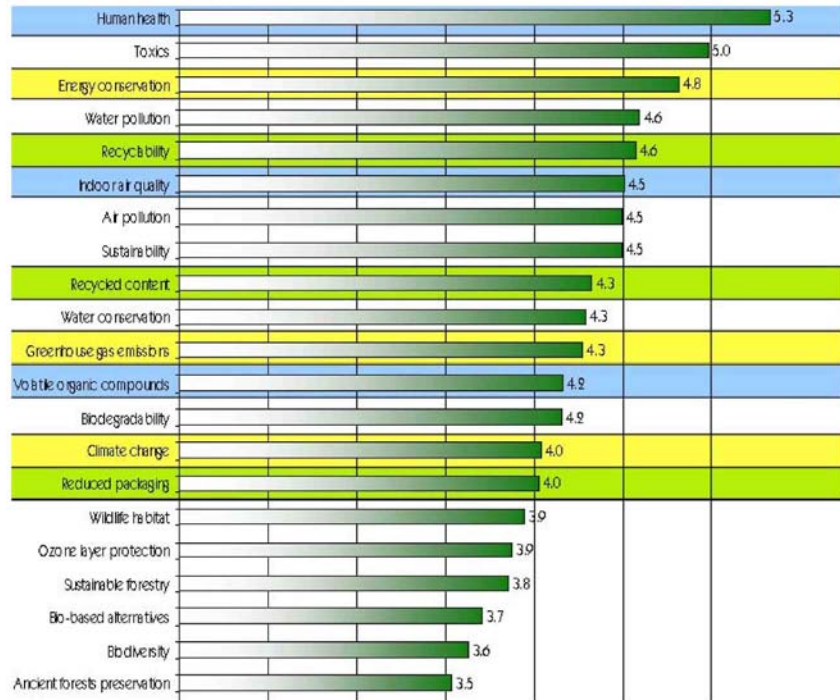
As big retailers such as Wal-Mart move into sustainable purchasing, this will further mainstream the practice. For example, in 2006 Wal-Mart committed to run its operations on 100% renewable energy, produce zero waste and double offerings of organic foods. It also announced a 2011 seafood goal to only carry seafood certified wild by the Marine Stewardship Council, a group dedicated to preventing the depletion of ocean life from overfishing. Seeking to be the first US retailer to sell Restrictions on Hazardous Substances (RoHS) – compliant personal computers, it committed to Toshiba to buy 12 weeks’ worth of such computers as opposed to its more typical four-week contract (Supply Chain Management Review, 2007). Each of these commitments will necessarily cascade into the Wal-Mart supply chain, along with those of other large corporations moving in this direction.

However, having a green purchasing policy does not necessarily translate into green *purchases*. The EcoMarkets study reveals that “for approximately 60% of organizations in Canada and the US, no more than 40% of annual spending is actually influenced by environmental factors” (TerraChoice, 2007, 2008), even though environmental purchasing programs are in place. A European study of government agencies identified a similar disconnect between perception and practice (Jonk, 2005). A 2005 survey of 25 EU member states was conducted in which government purchasing agencies were assessed to determine the effectiveness of their green purchasing programs. The study evaluated 1,099 tender documents and surveyed 865 purchasers and found that while 67% identified themselves as green purchasers, only 37% had green purchasing programs in place. This conclusion was based on a scan of the actual tender documents. In many cases there were either no green specifications at all or else “grey” practices were in place in which attempts for green specifications were found, but would not lead to a greener product, as in “environmental aspects are considered”. The tendency for organizations to under-perform their expectations is one to watch going forward – as increasingly organizations will be called to account for their impacts on society and environment. Such underperformance will be spotted through evaluation and monitoring programs, a later stage of sustainable purchasing practice.

Another area of weakness that is likely to drive future green purchasing programs is the vulnerability retailers face in stocking and marketing consumer products that make false or misleading green claims. A recent study conducted by TerraChoice, which certifies products bearing the Canadian EcoLogo, studied 1,018 consumer products making 1,753 environmental claims, including toothpaste, caulking, shampoo, printers, appliances, body lotion, pesticides, ink cartridges, light bulbs, paint, flooring, insulation and bags. According to the study, “all but one product committed at least one of six greenwashing “sins”: hidden trade-offs, no proof, vagueness, irrelevance, fibbing and the lesser of two evils. [...] The biggest “sin” committed – 57% of all environmental claims – was the hidden trade-off such as “energy-efficient” electronics that contain hazardous materials and paper products that promote their recycled content while ignoring their polluting manufacturing processes” (Young, 2007). Studies such as this and sophisticated consumerism are likely to prompt retailers to become more engaged in the green purchasing and verification process.

It is revealing to consider the environmental factors purchasers consider to be the most important. As seen in the chart below, the most important issues are related to the human environment (e.g. human health and toxics). (By 2008 energy conservation had moved from 3rd spot to 2nd spot, moving toxics into 3rd place (TerraChoice, 2008, p. 9). By 2008 recycled content jumped from 9th to 5th and reduced packaging gained in importance ranking equally with the issues of GHG emissions, volatile organic compounds and biodegradability (TerraChoice, 2008, p. 9).

Figure 5: Relative Importance of Environmental Issues – Rating Scale of 1 (least) to 6 (most important) (TerraChoice, 2007)



Social Purchasing Trends

Social purchasing refers to purchasing that provides one of more of the following social benefits:

- Improves wage levels and working conditions and advances human rights (i.e. ethical sourcing)
- Promotes strong local economy (i.e. buy local)
- Supports vulnerable and minority groups and provides community services (i.e. community-benefit purchasing and diversity purchasing)
- Promotes economic opportunity and benefit-sharing with indigenous people (i.e. Aboriginal purchasing)
- Improves conditions in emerging economies (i.e. Fairtrade)

In 2003 a report on green procurement produced for the Commission for Economic Co-operation noted that future purchasing trends would show “the concerns of buyers and consumers broadening beyond environmental issues to include the social performance connected with products, services and organizations” (CEC, 2003). The 2007 EcoMarkets Report also indicates that purchasers are ranking social impact considerations highly when making purchases, though not as highly as environmental concerns, as seen in Figure 1, page 9. The AT Kearney report further shows that US corporations are addressing the social aspects of their supply chains: 54% are tracking metrics on supplier labour practices, and 32% are tracking metrics on supplier wages, both dimensions of ethical sourcing.

The following provides some high-level trends in Fair Trade, Diversity Purchasing, and Ethical Sourcing, key dimensions of social purchasing.

Fairtrade

Fairtrade is an international system of procurement that offers producers and workers in emerging economies fair compensation for their products and labour, while promoting sustainable environmental practices, improved social services and investment in local economic infrastructure. Fairtrade certification provides the purchaser guarantees that commodity products such as coffee, tea, sugar, flowers, etc., satisfy a rigorous set of requirements that benefit workers and farmers in emerging economies.

Fairtrade is a fast growing global market. Sales in European countries show Fairtrade growing at an average 20% annually since 2000, with annual sales of €660 million, more than double sales of five years ago (European Leaders Network (ELN), 2006). In Canada, Fairtrade product sales have increased 85% in the last four years (Transfair, 2007). In the ten years since the Fairtrade Labeling Organization International was created, the number of certified Fairtrade producers has tripled, and sales have increased 40% per year (Fairtrade Labelling Organizations International (FLO), 2007).

The UK has spawned an initiative to promote fairtrade purchasing on the part of local governments. Called Fairtrade Towns, in which the municipal council adopts a fairtrade resolution and commits to purchasing fairtrade products, there

are now 270 such towns in the UK with others springing up in Belgium, Italy, Ireland, Canada, Finland and Sweden (FLO, 2007). This is expected to result in greater numbers of municipalities purchasing fairtrade products.

Fairtrade trends can be tracked by observing developments with respect to coffee. In 2005 Starbucks purchased 11.5 million pounds of fairtrade certified coffee, representing 10% of global fairtrade certified coffee imports (Starbucks, 2006). Other brand name retailers are implementing fairtrade coffee programs, including McDonalds, Nestles, and Proctor and Gamble. This trend is expected to continue.

Also in 2005, fairtrade coffee was sourced by over 400 coffee companies in the US (Oxfam, 2005), while in 2003 it was reported that 200 US universities offered fairtrade certified coffee (Global Exchange, 2007). In 2005 fairtrade coffee represented 3% of the instant coffee market with double-digit growth (BBC, 2005). Universities, local governments, brand name retailers and socially responsible workplaces are expected to be fueling demand for fairtrade coffee in the years ahead.

One 2005 study reported that fairtrade products were available in over 32,000 retail locations in the US including Safeway, Target, Costco, Sam's Club and McDonalds (Dlott and Arnold, 2006).

With heightened consumer awareness about social justice issues in emerging economies, including poverty and fair wages and working conditions, retailers and public institutions are expected to be driving demand for fairtrade products in the foreseeable future.

Diversity Purchasing

Supplier diversity, or diversity purchasing, is a form of social purchasing that encourages purchasing from minority- and women-owned businesses, as well as promoting purchasing from a greater variety of businesses, including small businesses, socially and economically disadvantaged businesses, or businesses located in underutilized business zones and inner-cities.

An international survey of purchasers conducted by the Institute for Supply Management in 2004 reports that 20% of respondents promote employment diversity practices through their supply chain. 29% said that, to a good to very great extent, they have a formal supplier diversity purchase program in place. Many indicated they had program goals of from 1 – 30% for specific percentages of spend going toward minority-owned businesses. Others expect to increase their minority-owned spend each year, by 10-12% (Duffy, 2004). The study also found that support for diversity programs is greater in government/education and service organizations than in manufacturing (Institute for Supply Management (ISM), 2004).

The efforts of the 2010 Olympic and Paralympic Winter Games to source from inner-city and disabled owned enterprises will likely bring attention to this approach to social purchasing, as will organizations such as Enterprising Non-

Profits, which provides a directory of social enterprises that hire employment-barriered people across Canada.

Ethical Sourcing Trends

Ethical sourcing primarily addresses supplier workplace conditions and human rights. The vast majority of ethical sourcing codes of practice addressing human rights and worker welfare issues draw on elements of International Labour Organization (ILO) core labour conventions, the United Nations (UN) convention on the rights of the child, and the Universal Declaration of Human Rights (ISM, 2004). A typical code of practice covers such issues as freedom of employment, freedom of association, safe and hygienic working conditions, child labour, living wages, working hours, non-discrimination and humane treatment.

The trend for large retailers to source goods from overseas generated stakeholder interest in the ethical management of company supply chains. NGOs initially targeted the retail sector but now are developing campaigns directed at the telecommunications and electronic sectors. Increased global sourcing can also be found in the textile, clothing, electrical and agricultural sectors, all of which are vulnerable to media and NGO efforts to advance ethical supply chain management. Media and NGO scrutiny will continue to drive companies to establish systems and controls to monitor supplier performance and develop reporting mechanisms to demonstrate to external audiences the steps they are taking to live up to their standards.

Investors and rating agencies are also assessing how companies address supply chain labour conditions. For example, the FTSE4Good index introduced labour standards into their annual CSR index in 2004.

Ethical sourcing evolved rapidly throughout the 1990s – one 1998 report listed over 200 codes of practice for worker welfare alone and over 20 codes of practice and standards affecting agriculture in emerging economies (Blowfield, 2000).

PricewaterhouseCoopers developed a continuum of how ethical supply chain management evolved over the past 15 years, from NGOs campaigns and awareness raising in the early 1990s, to the establishment of recognized standards in 1998 and 1999 (SA8000 and Ethical Trading Initiative (ETI)); to investors and government pressure in the early 2000s, and now a move towards understanding the *impacts* of responsible supplier management programs. During this period companies moved from initially asking if a corporate code should be adopted, what it should contain and having idiosyncratic codes and approaches, to the adoption of standards and the beginning of a debate on the need for monitoring and audit compliance in the late 1990s. Currently the debate is around how to measure impacts and how activities can be integrated with broader supplier management objectives (Pricewaterhouse Coopers (PwC), no date).

A Gradient Index was developed by an investment firm to assess corporate performance in ethical sourcing. Applied to a group of 35 FTSE350 companies

Sustainability Purchasing Trends and Drivers

taken from 6 sectors, it found that 14 did not disclose a supply chain labour standard code or policy or had a weak code that did not reference core ILO conventions; only 1 company aligned performance in this area with staff incentives; 26 of the companies committed themselves to auditing performance in their supply chain, only 8 covered their entire supply chain; and those participating in the ethical trading group, Ethical Trading Initiative, scored higher on average than non-member companies (PwC, no date).

As reported earlier, the AT Kearney report revealed over half of US Fortune 100 corporations are addressing the social aspects of their supply chains: 54% are tracking metrics on supplier labour practices, and 32% are tracking metrics on supplier wages.

The traditional approach to ethical supply chain management has long been the social compliance model, where manufacturers' facilities are assessed for compliance with local laws and companies' codes of conduct. Typically, such monitoring is carried out by external agencies, although some companies are increasingly employing their own full-time specialist monitors or training existing buyers to monitor performance in this area. Gap, for example, has about 90 full-time employees worldwide who monitor factories for compliance issues and work with manufacturers, local NGOs, unions and other stakeholders to improve conditions (PwC, no date).

The effectiveness of the traditional social compliance model is being increasingly questioned by NGOs and trade unions, due to poor levels of rectification in terms of supplier performance (PwC, no date). A study of nearly 200 workers and 200 representative groups and companies in China, Honduras, India, Kenya, the US and Europe found that codes of conduct were insufficient to achieve sustained improvements on their own, requiring the implementation of capacity building and worker empowerment programs. For example, many workers in China were unaware of their rights under Chinese law. The study also concluded that suppliers have an insufficient understanding of the business benefits associated with making required investments in CSR (PwC, no date).

Further research suggests that poor rectification is usually due to a combination of weak internal processes and controls in following up identified non-compliances; a lack of leadership from senior management; conflicts between buying teams' targets and systems; a lack of influence or leverage with suppliers; and a lack of supplier awareness/worker empowerment (PwC, no date). The most forward looking companies are starting to work collaboratively with others in their sector to manage ethical supply chain issues and are also integrating their ethical sourcing management programs within wider business objectives, involving integrating social compliance within the context of broader supply chain issues such as brand impact, intellectual property, quality issues, product traceability and financial security; and ensuring that wider business objectives, targets and systems are aligned with ethical sourcing principles (PwC, no date).

The PwC study that documented these trends and issues suggested that business integration and industry and supplier-purchaser collaboration will be key developments going forward. Indeed, Nike has developed a new approach to

contract manufacturing that might point the way to future business integration models: their approach follows a balanced scorecard approach such that buyers will make sourcing decisions based on a broad set of criteria that incorporates not only price, quality and delivery, but also the health, safety, environmental and labour management practices of the supplier. They are also exploring ways of motivating buyers to take the new criteria seriously, such as paying performance bonuses to those who meet corporate responsibility goals (Ethical Trading Initiative (ETI), 2006). As for collaborating, many companies are starting to work on collective efforts to share best practices and findings from site visits to suppliers to avoid duplication of effort and save resources.

Some predict that the focus of ethical sourcing standards will expand in the future to take a broader approach to how employees are viewed. The European concern for Social Cohesion is advancing the idea that companies have a broad responsibility to people. Social Cohesion proposes that a company's ethical responsibilities are not limited to working conditions, but also include aspects such as professional development and relocation; in other words, addressing people's needs beyond their direct usefulness to the company (Blowfield, 2000).

An ETI sponsored conference in 2005 identified the following emerging trends in ethical sourcing that will affect developments in ethical sourcing in the years ahead:

- 1) In future audits will get to the root causes of poor working conditions – audits and audit findings will be used strategically to identify national and industry-wide problems and develop solutions;
- 2) Suppliers will be shown how good working conditions can benefit their business and purchasers will support them to make code implementation part of the way they do business;
- 3) Workers will be made aware of their rights within corporate codes and labour law;
- 4) Companies will make a greater effort to ensure their core business practices support the ability of suppliers to meet international labour standards; and
- 5) Firms will be working with other brands and retailers, NGOs, trade unions and government to tackle systemic labour problems at a sectoral and strategic level (ETI, 2005).

As suggested from this list of future ethical sourcing trends, it is predicted that companies will shift their focus from monitoring to actually changing working conditions. There will be greater attention to addressing labour problems through corrective action plans. Firms might even be providing management and HR assistance to help suppliers improve their practices (ETI, 2005).

Another trend is toward factory and supplier disclosure. Several large companies, notably Nike, Levi Strauss & Co., Puma and others have revealed the names and contact details of their top level suppliers on their websites (ETI,

no date). NGO campaigning on this issue is likely to drive more factory disclosure in future.

It bears noting the most of these trends are being driven by large, leading brands. However, smaller buyers are not demonstrating the same progress. They are constrained in their efforts to leverage improved supply chain labour conditions after the fact; future practice in this area will see more and more small buyers integrating their social conditions up front with their production goals. It is only in this way will they be able to have any affect on factory conditions (personal communication with representative of Verité, November 14, 2007).

However, there is increasing information available on global workplace conditions to help purchasers going forward, for example, a study by Verité that looks at labour conditions in 27 nations (Verité, 2006); and a study by PwC that found four areas of common non-compliance of over 1,500 factories in one region of China: barriers to freedom of association; insufficient wages and compensation; excessive working hours and poor health and safety standards. They also found that in recent years the incidence of child labour has become less common and health and safety performance has improved, suggesting a positive benefit from ethical sourcing programs (PwC, no date, p.8).

Other quantified benefits that have resulted from ethical sourcing programs include increased purchaser knowledge about their suppliers, better relationships with suppliers and product differentiation (PwC, no date, p.7).

Finally, smaller retailers may play an increasingly important role in how ethical sourcing evolves in future. Concerns about integrity and product safety will drive their interest in where and how their products are manufactured. Indeed, a number of small retailers in Canada are developing codes of conduct for their suppliers and asking questions about the source countries and factories of their products (personal communication with representative of Retail Council of Canada, November 2, 2007).

This review of trends in ethical sourcing reveals a shift from internal company codes to generic industry standards; a shift from a sole focus on auditing to worker empowerment and supplier capacity building in the years ahead; and a shift from independent to collaborative efforts in ethical supply chain management.

Government Purchasing Trends

Governments around the world are integrating sustainability requirements into their vast public procurement processes. According to the Commission for Economic Cooperation, governments not only recognize their position of influence, their responsibility to demonstrate environmental performance and their ability to promote environmentally preferable products, they are also connecting the benefits of green procurement to their fiscal responsibilities, job creation efforts and goals for community health and welfare. The awareness of these opportunities is a key factor driving the growth of green procurement in government agencies (CEC, 2003). Governments acknowledge that if they wish

Sustainability Purchasing Trends and Drivers

businesses and other organizations to become more environmental and socially sustainable, they need to walk their talk. They need to get their house in order as a demonstration of their commitment to social and environmental responsibility and to expect it of others, and are developing sustainable purchasing programs as an expression of this interest.

In Canada, for example, the federal government created the Office of Greening Government Operations within Public Works and Government Services Canada in 2005, with a mandate to accelerate the greening of its operations, including green procurement. It adopted a Green Procurement Policy in 2006 with the goals of benefiting the environment through:

- Reducing greenhouse gas emissions and air contaminants;
- Improving energy and water efficiency;
- Reducing ozone depleting substances;
- Reducing waste and supporting reuse and recycling;
- Reducing hazardous waste; and
- Reducing toxic and hazardous chemicals and substances.

The policy also intends to lever the federal government's purchasing power to achieve economies of scale in the acquisition of environmentally preferable goods and services, thereby reducing the cost for government and strengthening greener markets and industries. A 2007 survey revealed that 76% of government departments or agencies had a green purchasing policy in effect (TerraChoice, 2007). More details of the federal government's efforts in this area can be found in the section on Regulatory Developments, p. 39.

The UK government's 2005 sustainable development strategy, *Securing the Future*, requires all government departments to produce a Sustainable Development Action Plan, including sustainable procurement plans, to ensure that the UK government throws its considerable purchasing weight of £150 billion annually behind the green agenda. To advance these goals, the government set up a Sustainable Procurement Task Force in 2005 to draw up an action plan to position the government as an EU leader in sustainable public procurement by 2009.

The UK government has made commitments to influence its suppliers to be increasingly low carbon, low waste and water efficient, and which respect biodiversity (UK Government, 2007). As a result of Task Force recommendations, UK adopted a Sustainable Procurement Policy Framework in 2006 that established priorities in climate change mitigation and natural resource protection with which government departments are expected to demonstrate compliance. The government has plans to embed mandatory product standards into relevant contracts and decisions in key areas including:

- Estate strategies and lease agreements
- Capital expenditure plans

- Construction projects
- Facilities management, buildings and grounds maintenance
- IT hardware and services and office solutions
- Energy and fuels contracts
- Travel services
- Hire, lease and pool cars (UK Government, 2007)

The Task Force is working with professional and academic institutions, including the Chartered Institute of Purchasing and Supply, to integrate sustainable development considerations into procurement courses and qualifications, and ensure that public sector procurers receive appropriate professional training on sustainability considerations (UK Government, 2005).

Across Europe, the European Commission has set its sights on green purchasing and is aiming to establish EU-wide green public procurement benchmark targets for 2010 (UK Government, 2005).

Local governments are joining the sustainable purchasing bandwagon, too. In Europe, for example, the International Council for Local Environmental Initiatives launched the Procura Campaign in 2004, an initiative designed to help support public authorities in implementing sustainable procurement. The Campaign provides toolkits and resources to local governments wishing to incorporate sustainability into the procurement processes, including particularly buses, cleaning products and services, electricity, food and catering services, information technology products and building construction and renovation, products and services deemed to have high potential for impact and improvement at the local government level.

The Worldwatch Institute confirms this trend:

Over the past decade or so, calls for greener government procurement have escalated. [...] Many governments increasingly recognize the value of greening operations as a way to streamline costs and achieve wider environmental policy goals, such as reducing waste and meeting targets for energy efficiency. Several countries—including Austria, Canada, Denmark, Germany, Japan, and the United States—now have strict national laws or policies requiring government agencies to buy green. [...] There has also been a flurry of green purchasing by city, state, and regional governments (Worldwatch Institute (WI), no date).

Although governments have been somewhat slower to adopt a social/ethical agenda, many are now adopting sweat-free policies. The Canadian cities of Calgary, Toronto, Ottawa, and Vancouver have policies for ethical purchasing, and in the US, 6 states, 38 cities and 12 counties have adopted similar policies. This trend is expected to escalate as these early adopter cities establish a process for others to follow. US states are further collaborating in a Sweat-free Consortium whereby they are pooling their resources for independent monitoring of working conditions in supplier factories (personal communication with

representative of Maquila Solidarity Network, August 16, 2007). These kinds of government collaborations are expected to continue, further driving sustainability into the global supply chain.

University Purchasing Trends

The collective buying power of US colleges and universities in 1999 was estimated at \$250 billion in goods and services—equivalent to almost 3% of the country's gross domestic product (WI, no date). This considerable market has an active and engaged student population, which has been successful in its grass roots campaigns to pressure university purchasers to purchase more sustainably (personal communication with representative of Maquila Solidarity Network, August 16, 2007).

University-based sustainable purchasing initiatives have been driven from the bottom-up, as students push administrations to incorporate more environmentally and socially sound principles into purchasing event services, university apparel, and cafeteria food (personal communication with representative of Responsible Purchasing Network, July 11, 2007). For instance, many campuses have student-run sweat-free product campaigns. In 2000, the University of Toronto passed the first sweat-free policy in Canada, and to date another fifteen Canadian universities have joined them.

At Simon Fraser University in BC, the success of student efforts to remove sweatshop products from the university's gift shops led the school to integrate social concerns into its procurement program, with social benefits beyond ethical sourcing. As a result, a local company that hires disadvantaged employees won the catering contract for the school's downtown Vancouver campus (personal communication with representative of Sustainability Purchasing Network (SPN), July 6, 2007).

In the US, over 170 colleges and universities have adopted a manufacturing code of conduct governing workplace practices and affiliated themselves with the Worker's Rights Consortium, a labour rights monitoring organization that investigates global factory working conditions, focusing on combating sweatshops and protecting the rights of workers (Worker's Rights Consortium, no date).

Other university-based sustainable purchasing campaigns focus on fairtrade products and socially responsible investment.

Collaboration Trends

Purchasers often confront innumerable barriers to achieving their social and environmental supply chain goals. Price, lack of supply, credibility, underdeveloped legislative frameworks, competing standards, and other challenges can threaten an organization's ability to achieve its sustainable purchasing objectives. Purchasers often turn to co-operative solutions as a means of tackling these issues. Most brands and retailers who have been implementing codes and sustainable purchasing programs for over a decade

realize there is a limit to what they can achieve working alone. They have realized that many labour and other social and environmental problems can only be dealt with effectively if they join forces with NGOs, trade union organizations and their competitors (ETI, 2006). The following provides an overview of some of the key trends in purchaser collaboration on sustainable purchasing, including purchaser-NGO partnerships, industry partnerships, and purchaser-supplier partnerships.

Purchaser-Non-Governmental Organization (NGO) Partnerships

Non-governmental organizations are actively partnering with leading corporations to help them redirect their significant purchasing power toward environmental ends (WI, no date). Some point to the Rainforest Action Network's (RAN) successful 1990's campaign against Mitsubishi Corporation for its practices in the tropical timber trade as the beginning of the trend towards collaborative NGO-purchaser engagement. In 1998 RAN pioneered a unique partnership that leveraged the market positions of the Mitsubishi's auto and electronics companies to generate far-reaching supply chain impacts. The companies agreed to establish procurement policies to phase out the purchase of timber from old growth sources, causing a supply-chain ripple that later saw forest company MacMillan Bloedel agree to phase out old growth clearcuts over five years (Climate Change Corporation, 2006).

NGO-purchaser partnerships typically take one of two approaches:

- 1) Focus on the product side, as with the World Resources Institute Green Power Market Development initiative that works to stimulate purchaser demand for renewable energy, and their paper project that focuses on increasing the availability and affordability of environmentally preferable paper; or
- 2) Focus on the environmental or social attributes, as with the Canadian Boreal Initiative, a multi-stakeholder program that works with companies to develop environmental procurement policies to ensure their forest-based products are derived from ecologically and socially responsible sources, thereby supporting the conservation of ancient and endangered forests. As a result of this effort to date, Cascades, Norm Thompson Outfitters, Kinko's, Staples, Office Depot, Home Depot and Lowe's have begun to implement positive procurement policies including commitments to give preference to FSC-certified pulp and lumber and to stop sourcing products from endangered forests (ForestEthics, 2004).

Industry Partnerships

In order to advance their social and environmental goals, purchasers are beginning to collaborate across their industry, finding that such collaborations have greater impact and are more cost-effective than working in isolation. For example, the apparel industry is working together on ethical sourcing issues. The Retail Council of Canada created Canadian Retailers Advancing Responsible Trade (CRART) as a collaborative effort among large Canadian retailers to advance ethical purchasing. The consultative group consists of leaders in humanitarian, academic, industry and consumer circles, including the

Consumers Council of Canada, Canadian Tire Corp, Holt Renfrew & Co. Ltd., Home Depot Canada, Hudson's Bay Canada, Sears Canada, Starbucks Coffee Company, Roots Canada and Wal-Mart Canada (Retail Council of Canada, no date). CRART's objective is to encourage the adoption of socially responsible trade practices by all Canadian retailers, through industry alliances and open dialogues with other stakeholders.

Another example of industry collaboration is the Ethical Tea Partnership, which was formed in 1997 by a number of UK-based tea packing companies who believed that they had a shared responsibility for the social and ethical conditions involved in sourcing tea (PwC, no date, p.12). Together they are investigating compliance with local legislation and collective bargaining agreements for approximately 1,200 tea producers. Further in the UK, four leading retailers, Marks & Spencer, Safeway Stores plc, Tesco and Waitrose together with Northern Foods, Geest, RHM and Uniq formed SEDEX, a web-based system for companies to maintain data on labour standards at production sites and make it available to companies with which they are in a trading relationship (PwC, no date). India is home to the Brands Ethics Working Group, an informal group of global brands and retailers, key agents, auditing companies and the Fair Labour Association, which meets to share experiences of dealing with difficult non-compliance issues, develop a common voice and approach to key compliance issues and engagement with local factories, and build the capacity of these factories to improve labour conditions (ETI, 2006, p.12).

Purchaser-Supplier Collaboration on Supply Chain Solutions

As sustainable procurement advances, many buyers find that supply chains are not able to deliver the sustainable products and services they seek. Tools, guidance, good practice examples and awareness-raising are helpful but often not sufficient to achieve sustainable purchasing objectives where the market does not have the capacity or innovation to meet the demand. New technologies come on stream fast when there is enough supplier confidence and clarity within a supply chain about the direction of developments, which makes it worthwhile for a supplier to make the investments in research and development to achieve new performance standards (Green Futures, no date). Large purchasers can influence the direction of new developments by taking a collaborative approach with suppliers. For instance, when Interface Inc. Global Flooring Systems wanted to reduce the use of National Pollutant Release Inventory-listed² substances in its products, it engaged suppliers to consider changing their product specifications, offering them more business if they could find ways to reduce or eliminate flame retardants, and encouraging suppliers to develop a CFC-free HVAC system. As a result, all NPRI-listed substances were removed from Interface's flooring products, and suppliers developed a CFC-free HVAC system (CEC, 2003).

² The National Pollutant Release Inventory (NPRI) is a Canadian-government legislated, nation-wide, inventory of pollutants that requires reporting of contaminants of concern that are released, disposed of and recycled by facilities in Canada.

In another example, aerospace company Boeing frequently collaborates with its suppliers to problem-solve on environmental issues. They support forums that bring together company representatives and key suppliers to tackle environmental problems. “The company has worked one-on-one with suppliers to help them find environmentally preferable substitutes for hazardous materials. In some cases, the company has reworked parts drawings to allow suppliers to undertake design for environment projects and use substitutes for materials that pose environmental concerns” (Business for Social Responsibility, no date).

As was mentioned with ethical sourcing trends, the future of sustainable purchasing is likely to be found in purchaser-supplier collaborations with purchasers supporting the capacity of suppliers to scale up to meet the new requirements. Indeed, the AT Kearny study of US Fortune 100 referenced earlier revealed that 70% would engage in joint process improvement with suppliers compared to 48% today. This suggests that increasingly purchasers are looking to collaborate with suppliers to achieve their social and environmental goals in the years ahead.

Collaboration to Ease Supplier Burden

Another reason for purchaser collaboration is to ease the burden on suppliers when responding to the sustainability specifications within requests for proposals (RFPs) and participating in performance monitoring. For example, it is well documented that suppliers are experiencing audit fatigue in response to increased requests for information on their manufacturing and labour practices. An integral part of many organization’s ethical purchasing monitoring programs, auditing against supplier codes of conduct has been most prominent in the apparel and sporting goods sectors, although it is also seen in gifts and other sectors. In the future, large purchasers are expected to take their cue from the apparel industry by creating partnerships to audit common manufacturing sites, creating efficiencies for both the supplier and the purchaser (personal communication with Hbc representative, April 26, 2006).

In the UK, as the public sector ramps up to respond to the government’s Sustainable Development Action Strategy, and the private sector responds to the climate change agenda with commitments to reduce carbon emissions in the supply chain, suppliers are increasingly pressed to respond to client surveys, undergo audits and provide data on carbon emissions. Recognizing the pressure this places on the supply chain, the UK government is creating a common approach to calculating and reporting carbon emissions, producing tools like carbon calculators (personal communication with representative of the Department of Environment, Food and Rural Agriculture (DEFRA), July 13, 2007). Efforts to standardize reporting and performance monitoring will become more commonplace in the coming period.

Purchaser Networking and Capacity Building

Over the past few years a number of networks have emerged to help purchasers develop sustainable purchasing capacity and know-how. In Canada the

Sustainability Purchasing Network was formed in 2005, as was the Responsible Purchasing Network in the US in that same year. Europe is home to the Buy-It-Green Network and the Japan Environment Association sponsors the Green Purchasing Network in that country. These organizations promote increased understanding, facilitate information exchange, and provide training and resources for purchasers. Helping purchasers work together to share best practices in sustainable supply chain management, these groups spread knowledge on sustainability purchasing to purchasers in other organizations, and to foster a sustainability marketplace.

Code Collaborations

A number of voluntary codes and standards have emerged over the past decade to inform sustainable supply chain management. This has generated confusion and duplication in the market, thus resulting in a recent trend towards the establishment of joint collaborations with standard setters and certification bodies. For example, the Joint Initiative on Corporate Accountability and Workers' Rights was formed in 2003 to bring together six multi-stakeholder groups working on different aspects of ethical sourcing. The Clean Clothes Campaign, Ethical Trading Initiative, Fair Labour Association, Fair Wear Foundation, Social Accountability International and Worker's Rights Consortium are currently working on a collaborative effort in the Turkish garment industry to set a common code and protocol for factory assessments, conduct pilot assessments, and work "...with brands, suppliers and other stakeholders to explore the most effective methods of improving labour practices in the key areas of trade union rights, working hours and wages" (ETI, 2005).

Another example is ISEAL, the International Social and Environmental Accreditation and Labelling Alliance, an association of leading voluntary international standard-setting and conformity assessment organizations that focus on social and environmental issues. ISEAL members represent standards and conformity assessment systems in sectors ranging from forestry and agriculture to fisheries, manufacturing and textiles. Current members include the Marine Stewardship Council, the Forestry Stewardship Council, the International Federation of Organic Agriculture Movement, Fair Trade Labeling Organization International, Social Accountability International, and the Rainforest Alliance (International Social and Environmental Accreditation and Labelling Alliance (ISEAL) Alliance, no date). Members are required to adhere to a Code of Good Practice for Setting Social and Environmental Standards. ISEAL creates tools to improve and enhance the credibility of the voluntary standard-setting process, helps strengthen member governance, and promotes the legitimacy of member programs. ISEAL has also conducted research on various topics such as stakeholder engagement, trademark protection and labelling, conflicts of interest, auditor competence, traceability and public procurement.

As purchasers become more and more engaged in sustainability sourcing, it is expected that these collaborations will multiply. As was indicated in the Metro Vancouver survey of purchasers profiled earlier, purchasers are not interested in learning about general approaches to collaborations, but they are very keen to

co-operate with other stakeholders on specific efforts to grow a sustainability economy. Once the first wave of early entrants to sustainable purchasing has passed, the second wave is expected to foster increased purchaser to purchaser, purchaser to supplier and multi-stakeholder collaborations.

Certification Trends

The globalized marketplace has generated a growing number of voluntary code and certification programs. Environmental, ethical and fair trade certifications exist to guarantee certain levels of environmental and social performance of goods and services around the world. Companies traditionally communicate product sustainability performance by using established third-party labels. Recently, however these programs have started proliferating, covering an ever-widening range of products, issues and geographies, varying considerably in their methodology and in the type of assurance they offer (BSR/Forum for the Future, 2008, p. 4). A host of new approaches are being developed including:

- “Cross-industry voluntary standards (such as the emerging specification for embodied produce greenhouse gas emissions)
- Industry-specific tools (such as the Electronic Products Environmental Assessment Tool in the ICT industry)
- Company-specific methodologies developed by companies themselves (such as Timberland’s Green Index)” (BSR/Forum for the Future, 2008, p. 4).

Business for Social Responsibility and Forum for the Future collaborated on a paper on “Eco-promising”, a term they coined to cover the practice of environmental claim-making and communication for products and services, including the use of labeling (BSR/Forum for the Future, 2008, p. 2). In this paper they chronicle the development of the eco-market within Europe, pointing out that during the 1990s retail competition and innovation on the basis of eco-products grew alongside an initial focus on health impacts and consumer protection, extending to environmental protection and resource scarcity over the decade. This was followed by the prevalence of “single-issue” labels, e.g. ‘Dolphin friendly’, MSC (for fish), FSC (for wood products), etc. With the increase in climate change awareness, in the mid-2000s, the focus turns to the development of carbon labels. In this period, as well, they point out, we are starting to see the polarization of labeling and debate and confusion around the trade-offs in purchasing decisions (BSR/Forum for the Future, 2008, p. 6).

Indeed, many purchasers are suffering from “certification overwhelm”, as new certifications broach the market, and often overlap with existing certifications (personal communication with representative of the Responsible Purchasing Network, July 11, 2007). For example, paper is one of the most important consumables for many organizations, with a high environmental profile. However, the market has moved beyond simply requiring recycled content, the initial standard; now purchasers struggle to cope with paper’s carbon footprint, multiple certifications and claims (e.g. Sustainable Forestry Initiative and Forest

Stewardship Council certifications, bleach-free, ancient forest friendly, etc.) of the paper itself and of forestry harvesting methods, driven in part by international advocacy campaigns such as the Canadian Boreal Initiative mentioned earlier (ForestEthics, 2004).

Virtually all developed countries now have their own ecolabelling schemes, with China's Green Mark, Japan's Eco-Mark, and the Korean Eco-Label and Good Recycled certification programs along with Canada's EcoLogo and the US Green Seal. According to the CEC, there is a widespread recognition of the need for technical equivalency between labeling organizations and countries which are expected to evolve in the years ahead (CEC, 2003).

To ease confusion, the Global Ecolabelling Network (GEN) was formed as an association of third-party environmental performance labelling organizations, to facilitate harmonization among ecolabelling programs and facilitate access to information on ecolabelling standards from around the world. Procurement organizations are increasingly counting on such bodies to provide advice about product label equivalency. For example, rather than prescribe a specific ecolabel requirement, Public Works and Government Services Canada now simply requires that its printers carry one of the GEN ecolabels (personal communication with PWGSC representative, May 3, 2007). The afore-mentioned ISEAL organization was similarly struck to help clear up confusion and bring further credibility to the certification process.

Another attempt to address the proliferation of environmental labels and claims, www.ecolabelling.org, provides a data-base of 301 eco-labels as of summer 2008.

Internationally recognized independent certification programs are also moving to separate the governance of standard setting, accreditation of certifiers and certification to standards to address conflict of interest issues (Dlott and Arnold, 2006). These are the natural developments of a movement rooted in social and environmental justice concerns that undergoes increasing market-oriented sophistication.

Sustainable Product Identification and Information Trends

Purchasing organizations are increasingly looking for trusted information to distinguish sustainable products and services from their non-sustainable counterparts. This has resulted in increased product labeling which is accelerating sustainable supply chain management, and has generated a demand for sustainable business directories to aid organizational purchasers in sustainable product and service selection. A TerraChoice survey of Canadian and US purchasers revealed that they find eco-labels useful. The survey showed that an overwhelming majority of purchasers (72%) believe eco-labels contribute to better purchasing decisions. Their study demonstrated that Energy Star is the most trusted eco-label in North America, followed by EcoLogo and GreenSeal (TerraChoice, 2008, p. 11).

Regarding the trend towards increased product labeling, retailers are introducing shelf-level sustainability labels, in their drive to communicate the sustainability attributes of their products and services to a highly sophisticated and demanding consumer. Increased product labeling has important ramifications for sustainability purchasing; as retailers implement consumer product labeling schemes, they introduce tighter supply chain management controls and force suppliers to disclose – and improve – their sustainability performance.

In the US, labels are becoming common for food products, such as organics and seafood. The carbon content of goods and services will soon be a label feature: product manufacturers and large retailers in the UK and US are starting to label the carbon footprints of their products. Walkers snack foods and Timberland shoes now carry carbon product labels, and Tesco, the UK's biggest supermarket chain, has committed to carbon label all its 70,000 products with the amount of carbon dioxide emitted during production, transport and consumption (Financial Times, 2007).

In Europe the Carbon Labeling Project has several labeling initiatives underway, focusing on transportation products and services with reduced carbon emissions, including fuels, fuel and lubricant additives and 'low carbon' freight services. This first European carbon labeling initiative will help in meeting greenhouse gas reduction and biofuel targets of the European Union, reduce petroleum dependence and help to combat climate change (Carbon Labelling, no date).

Timberland, a US footwear and gear company, is a leading indicator of where labeling might head in the future. Its footwear labels have three sections: manufactured, environmental impact and community impact, the first of its kind in the retail industry. The manufactured section of the label identifies the name and location of the factory; the environmental impact section reports how much energy is needed to produce the product and how much of Timberland's energy is generated from renewable resources such as the sun, wind or water. The community impact section details what percentage of factories are assessed by the company against code of conduct standards, the percentage of the workforce that are children and the total number of hours volunteered in the community by Timberland employees (Boston College Carroll School of Management. Center for Corporate Citizenship, no date). In an effort to enhance its transparency and accountability, Timberland will require its suppliers to report on these social and environmental outcome measures. In its effort to improve its sustainability performance, Timberland will expect its suppliers to reduce their negative social and environmental impacts.

Whereas retail firms are moving to provide sustainable product information to the personal consumer, organizations are also looking for information on the sustainable attributes of goods and services. This is driving a trend towards the creation of sustainable product directories and sustainable product fairs. The 2010 Commerce Centre, for example, has created a publicly accessible and searchable online database of vendors interested in becoming suppliers to the 2010 Olympic and Paralympic Winter Games. TerraChoice provides a product and service directory of its EcoLogo certified companies. In the US the Centre

for a New American Dream provides a Conscious Consumer Marketplace while Co-op America operates the National Green Pages portal to sustainable products and services. There are innumerable product fairs to bring information on sustainable goods and services to sustainable organizations, such as the international bi-annual Trade Fair on Business and the Environment sponsored by the Globe Foundation in Canada.

National and international third-party labeling schemes are expected to continue to grow rapidly. “Germany’s Blue Angel eco-label, for example, is now used on approximately 3,600 products supplied by 580 companies (BSR/Forum for the Future, 2008, p. 7).” Two trends are further predicted: a trend towards harmonization, wherein the scope of existing schemes are broadened so that they complement, overlap or merge with each other; and a second trend of increasing demand for more detailed specification in environmental product assurance, both from regulators and from the public (BSRForum for the Future, 2008, p. 7).

Performance and Measurement Trends

Driven by a move towards greater transparency and accountability and a desire to understand the impact of their sustainable supply chain initiatives, purchasers are increasingly looking to assess the results of their sustainable purchasing efforts. Independent certification and corporate-led procurement programs are increasingly introducing social and environmental performance-based metrics to determine if products meet certification and/or purchasing requirements (Dlott and Arnold, 2006). As noted earlier, measuring impact was one of the top priorities of two-thirds of purchasers in the Metro Vancouver area who were surveyed on their key sustainable purchasing interests (SPN, 2006). As well, the previously mentioned AT Kearny 2007 study of Fortune 100 companies indicated that the number of organizations planning to track a set of sustainability metrics for major suppliers would increase to 65% in 2008 from 39% in 2007 (AT Kearney, 2007).

ISEAL members have established a priority commitment to measuring and communicating the social, environmental and economic change resulting from certification to their standards. They are currently developing a framework to incorporate performance-based data into their eco-labeling standards.

Carbon Purchasing Trends

The dominance of climate change on the environmental agenda will drive the greening of supply chains as procurement professionals struggle to assess the carbon impacts of their suppliers, and suppliers, striving to meet increasing demands, reduce, measure and report on the carbon impacts of their products and services. Organizations are coming to realize that much of their carbon impacts are within the supply chain. For instance, supply chain planners Barloworld Optimus estimate that “over 80% of carbon savings are only achievable at the supply chain design stage” (Barloworld Optimus, 2007). To illustrate this point, when UK retailer Marks & Spencer committed to become

carbon neutral by 2012, it began working with its 1,500 suppliers worldwide. Its sustainable development manager stresses the importance of addressing carbon impacts in the supply chain: “Our contention is that, for retailers, the footprint of stores and lorries probably accounts for less than 10% of your actual carbon footprint. The true impact lies in your supply chain, and in the use and disposal of products” (Climate Group, no date).

Many organizations in North America and Europe have recently made carbon neutral commitments. When these organizations make such commitments, there is a significant downstream implication for their suppliers as they begin to survey them on the carbon implications of their operations, and expect that suppliers can begin to provide them with data to measure their supply chain carbon impacts (personal communication with representative of the DEFRA, July 13, 2007).

However, this trend has not quite taken off. A McKinsey survey of over 2,000 global executives finds that “while nearly half say that climate change is a somewhat or very important issues to consider in purchasing and supply chain management, fewer than one-quarter report their companies always or frequently take climate change into consideration in these areas.” Their analysis suggests that “for consumer goods makers, high tech players and other manufacturers, between 40 and 60% of a company’s carbon footprint resides upstream in its supply chain – from raw materials, transport and packaging to the energy consumers in manufacturing processes. For retailers, the figure can be 80%.” (Brickman and Ungerman, 2008).

Total Cost of Ownership as a Growing Trend

Organizations cannot afford to lose sight of the bottom line when developing their sustainable purchasing policies. Fortunately, methodology has been developed to help them analyze the long-term costs and benefits of a given product or service. Called total cost of ownership, or TCO, this approach helps organizations understand not only the up-front cost of a purchase but all aspects in the further use and maintenance of the equipment, device, or system considered. This includes the costs of training support personnel and the users of the system, costs associated with failure or outage, costs of security breaches (in loss of reputation and recovery costs), costs of disaster preparedness and recovery, floor space, electricity, decommissioning, e-waste handling, and more. It is predicted that increasingly organizations will be using TCO tools to better understand both the financial and the sustainability implications of a given purchase (personal communication with Sustainable Purchasing Network Representative, July 11, 2007).

Some companies are beginning to weigh the intangible benefits of increased brand reputation against the increased capital cost for greener products (see Interface HVAC example, page 33 as part of their approach to TCO).

These are some of the key trends in the global move towards sustainability purchasing. The following provides a high-level overview of the drivers behind the trends.

4. Drivers of Sustainability Purchasing

As documented in the foregoing analysis, sustainability purchasing is on the rise, affecting supply chains around the world. This section summarizes some of the key drivers propelling these trends forward, including organization-specific business drivers and more general global drivers.

Business Drivers

Recent surveys show that there are a number of organization- or firm-specific business drivers for sustainability purchasing including ethics (the right thing to do), brand improvement, product differentiation, accountability and compliance as shown in the table below.

Figure 6: Sustainability Purchasing Drivers (AT Kearney, 2007 and SPN, 2007)

Comparison of Drivers					
AT Kearney (North American Fortune 500 Companies					
Improve brand	Differentiate products	Compliance	Risk management	Efficiency	Cost
54%	50%	46%	33%	21%	17%
Sustainability Purchasing Network (BC purchasers, sustainability professionals, suppliers)*					
Right thing to do	Accountable to customers	Branding	Risk Management	Market Demand	Employee Morale
95%	51%	37%	31%	27%	27%

*Multiple answers allowed; responses do not add to 100%

Brand Recognition

Many businesses are recognizing that sustainability purchasing can improve brand image, as they can both circumvent negative brand attention and direct positive attention to their brands through sustainability purchasing initiatives.

For many, “earned media” resulting from sustainability efforts offers better brand enhancement and recognition than paid advertising. For instance, Interface’s sustainability procurement efforts have produced media profile by CBC television, the Discovery Channel, national newspapers and magazines in Canada and the US. Working with suppliers to drive innovation in producing a CFC-free HVAC system earned them a 30-minute documentary on CNN. Although difficult to quantify the value of this earned media, when estimating the overall return on investment of its effort on the project, Interface compared its earned media to the cost of paying \$100K (USD) for 30 seconds of advertising time on television (CEC, 2003).

Compliance

As purchasers implement sustainability purchasing initiatives throughout their supply chain, suppliers will increasingly be asked to demonstrate that they meet high environmental and ethical standards. They may be the subject of audits or other compliance checks. Sustainability purchasing programs help suppliers to demonstrate their commitments and provide assurance to purchasers, as they gain increasing knowledge and control over their own supply chains.

Being able to demonstrate compliance to certain standards helps firms meet customer demands. For instance, Catalyst Paper created a line of paper products for which it had the chain of custody from sustainably-managed forests independently certified. It instantly attracted new customers, such as The Office Depot, looking to source paper from non-endangered forests.

Risk Management

Risk management continues to be a main driver of sustainability purchasing efforts, albeit not as powerfully as brand improvement and compliance. As consumers become more aware of product sources, and as environmental and social activist groups keep a close watch on corporate buying, corporate brands become more closely linked to those of their suppliers. The field of corporate social responsibility has evolved such that now corporations are increasingly perceived by stakeholders as being responsible for the indirect effects of their operations found in their supply chains. Informed and sophisticated consumers, media, NGOs and other stakeholders are pressuring companies to monitor and manage the social and environmental impacts of their purchasing decisions. Ethical sourcing, for example, is rooted in risk management drivers, as media, NGO, and consumer interest pressure organizations to adopt better labour practices in their outsourced operations.

On the environmental front, the advocacy group ForestEthics is threatening the reputations of high profile brand retailers whose supply chain includes paper from ancient forests. In 2005, in a move to humiliate Victoria's Secret, which prints and mails 395 million catalogues a year, it ran a full-page ad in the New York Times criticizing the firm for sourcing paper produced from endangered forests, 25% of which comes from the Canadian Boreal Forest. Through its campaign it sought to convince Victoria's Secret to shift to recycled paper for catalogue production (ForestEthics, 2007b). The campaign ended in 2006 when the firm announced a new environmental policy. ForestEthics has now shifted its campaign to the catalogue sourcing practices of Sears/Land's End.

Shareholders also exhibit influence over sustainable procurement practices of corporations. In 2002, in response to anti-sweatshop campaigns led by the Ethical Trading Action Group and the Maquila Solidarity Network, a Hudson's Bay Company (Hbc) shareholder resolution to more tightly control ethical standards in its supply chain received 36% of the shares voted, setting a record for investor support on a social shareholder resolution (Social Investment Organization, no date). Socially responsible mutual funds and other responsible investors are increasingly using their ownership rights to influence corporate

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management through shareholder dialogues and shareholder resolutions. Shareholders are becoming active on this agenda due to the risks to corporate reputation, and therefore brand value, inherent in not actively managing the sustainability impacts of supply chains. Shareholders are also concerned about government regulation risk and risks of reduced access to natural resources.

As purchasing organizations become more dependent upon suppliers, and a higher level of risk is introduced into their business performance, purchasing organizations will start to increase their supplier development programs. This is expected to be a greater trend in future (Luskin et al, 2005).

Cost

As seen in the chart above, some organizations cite cost as a driver for sustainability purchasing. Now that sustainability purchasing programs have begun to mature, many organizations are reporting savings. For example, King County Washington is a reputed leader in green purchasing in the US. For 18 months over 2003 and 2004, they reported savings of \$942,000 USD as a result of green purchasing initiatives in remanufactured toner cartridges, retread tires, shredded wood mulch, recycled antifreeze, compost, plastic lumber, air filter cleaning and hydrostripping sign services (Case, 2005).

Innovation

A further business driver for sustainable purchasing is product and service innovation. As firms require their suppliers to improve their environmental and social performance, suppliers often are compelled to innovate their products and services to comply. BASF, a multinational manufacturer of chemicals, plastics and other products, is influenced by its clients to create new sustainable products. When Tridel Condominiums wanted to improve the energy performance of their new buildings by reducing heat loss through the walls, they worked with BASF who created a new spray foam insulation product that was commercialized for sale to other buyers (Strandberg and Robinson, 2006).

General research has found that the increased communication with suppliers helps build trust with suppliers resulting in increased efficiency in the supply chain. Publicly-traded corporations with strong sustainability purchasing programs can also attract investment as the numbers of investors integrating social and environmental considerations in stock selection grows. For many small businesses, the primary business motivation for sourcing ethically and environmentally is as a source of market differentiation with their customers (ETI, no date).

These business drivers can affect the financial performance of a firm and thus are key motivators of a strong sustainable purchasing program. There are a number of general global drivers, too, that affect other organizations as well as businesses.

Global Drivers

Increasing Focus on Corporate Social Responsibility (CSR)

Organizations around the world are establishing programs to manage their social and environmental performance (often referred to as Corporate Social Responsibility or CSR). This move to embed CSR and sustainability goals and objectives within operations is leading organizations to integrate sustainability into the purchasing process. With more and more organizations making sustainability commitments, sustainability purchasing may become a “litmus test” for those commitments (World Business Council for Sustainable Development (WBCSD), 2007), as corporations will be held by informed public and activist

groups to deliver on directives of their CSR programs (AT Kearney, 2007). Some organizations may also use procurement as a tool to demonstrate proactive sustainability leadership.

The Achilles Group, a UK provider of supplier management information, recognizes that “[t]he last 18 months has seen many companies moving from simply having an awareness of CSR to finally doing something about it. In the past companies have published reports and CSR statements, but now people are beginning to ask questions, they’re beginning to say ‘show me the beef’” (ELN, 2007). This is then translated into sustainable purchasing programs as a means of showing tangible evidence of CSR embedment.

As pressure on multi-national corporations to take responsibility for the impact of their entire supply chain increases (personal communication with representative of Commission for Economic Cooperation (CEC), July 13, 2007), the World Business Council for Sustainable Development (WBCSD) reports that 2007 will be a year of movement in sustainable supply chain issues:

...[C]orporate supply management departments [will] play catch-up across all aspects of sustainability. Perhaps most telling is the increase in the number of [Fortune 100] firms that indicated that in the future they will be much more likely not to select suppliers that fail to meet formal sustainability requirements (WBCSD, 2007).

Until recently, the social and environmental impacts of an organization’s purchasing were often overlooked, and the people making procurement decisions were typically isolated from those who developed the environmental or sustainability strategy (ELN, 2007). With purchasing increasingly in scope for a sustainability strategy, this will drive greater attention to the role of the purchasing department and suppliers to help an organization achieve its sustainability goals. “Many companies are using procurement policies, product specifications, contract language and supplier training to advance their CSR goals” (ELN, 2007), and this is expected to increase in future.

Globalization and Offshoring Increase Need for Sustainable Supply Chain Management

Globalization is a sustainable purchasing driver as a result of the increased tendency towards offshoring and outsourcing. “As large manufacturing firms refocus on core competencies and outsource secondary functions, they become increasingly more dependent upon supplier partners for innovations needed in the creation of new products or services. [...] This means that, to a large extent, the environmental and social impacts of [manufacturing] companies are being realized at the supplier level” (ELN, 2007, pp.1-2).

The Achilles Group feels that the impact of corporate social responsibility in the supply chain is most important to organizations now due to the increase in globalization. “[T]he growing number of companies choosing to offshore [products and] services has vastly increased the supply chain risk. If CSR had come on its own it wouldn’t have had such a big impact. But with globalization,

companies are increasingly buying goods or services from untraditional sources. It's clear offshoring is changing the very nature of procurement; companies are now constantly looking for services that are better, faster and cheaper, but as they increasingly look to the far east to provide these, then the risk of something going wrong rises dramatically" (ELN, 2007).

A study by the Brown-Wilson Group, a Florida company that studies the outsourcing industry, found that a growing majority of corporate decision makers will consider green credentials when selecting future outsourcing companies. 90% of their surveyed firms reported that they will consider environmental stewardship when contracts come up for bid during the next year. Their study found that publicly traded companies are the most motivated to do so, influenced by regulatory, shareholder and customer concerns (Greenbiz, 2007). "To remain competitive [small and medium-sized businesses] must adapt to these changing supply chain requirements and become proactive in adopting the sustainable development goals of their customers" (Luskin et al, 2005).

Large Purchaser Ripple Effect

As retail industry giant Wal-Mart moves into sustainable supply chain management, sustainability requirements will increasingly be enforced with their supply chain partners. When Wal-Mart introduces its packaging scorecard – which will evaluate greenhouse gas emissions, product to packaging ratio, recycled content usage, and the amount of renewable energy used to manufacture the packaging, among other attributes – as an element in supplier selection in 2008, this will start to influence the purchasing behaviour of its 60,000 global suppliers. Next up are consumer electronics, which will be evaluated for energy efficiency, durability, upgradeability, end-of-life solutions, size of the package containing the product, and amount of hazardous substances such as lead and cadmium. Not only will Wal-Mart's actions influence *supplier* purchasing behaviour, but other purchasers are likely to be influenced by Wal-Mart's approach, increasing the number of purchasers who go green and the way they do so.

These sustainability purchasing global and business drivers will continue to advance the take-up of social and environmental considerations in the supply chain around the world. Governments, too, can have a significant influence over the marketplace, as seen in the following overview of recent regulatory developments impacting the sustainability of the supply chain.

6. Multilateral and Regulatory Developments

Governments around the world, concerned about sustainability issues, are introducing regulatory programs that affect the production and consumption of goods and services. Governments are ultimately responsible for the societal and environmental consequences of products and services externalized by the market system that does not often require producers to take responsibility for the social and environmental impacts of the production, use and disposal of their products and services. Policy makers attempt to compensate for this reality by

creating a favorable climate for sustainable product/service innovations, to stimulate demand for such products and shift towards a more sustainable economy (United Nations (UN), 2007).

Regulatory developments to reduce the lifecycle impacts of goods and services – for example, by restricting the use of harmful materials in production or by requiring producer responsibility for disposal – affects all aspects of the supply chain. Suppliers are thus directly impacted in design and production; they can experience restricted access to markets if they do not keep up with the most advanced regulatory schemes in nations around the world. For instance, in 2001 Sony's Playstation game machines were seized when Dutch inspectors discovered cadmium in the machine's cables, which was in contravention of the Netherlands 1999 regulation banning the metal (ROHS Welll.com, 2004). Sony estimated that the impact on sales in Europe was 110 million Euros, and a further 52 million Euros for the costs of reworking the products to comply with the regulation and reassure customers across Europe (Sony, 2002).

Purchasers, particularly large buyers, must keep apprised of legislative developments that impact different aspects of product lifecycles and that can affect both purchasing processes and producer/purchaser responsibilities. Purchasers, for example, need to monitor legislation in order to understand how it might affect the capabilities of the supply base and their compliance levels. They need to keep track of whether there might be shortages in compliant and non-compliant products in order to maintain steady supply inventory levels and must be aware of the potential financial impacts of inventory obsolescence. Buyers can be exposed to inventory write-offs if there are large swings in price or demand for non-compliant components. As regulations go into effect, it will be increasingly important for buyers to keep track of their supply base compliance initiatives, to monitor their inventory levels and lead times and to consider alternative sources of supply if incumbent sources fail to meet regulatory compliance. For these reasons, purchasers need to keep a watchful eye on government moves to regulate sustainability performance. As government regulations are implemented, they cascade into the supply chain, with sustainability elements appearing in procurement agreements (Luskin et al, 2005).

The following provides a high-level summary of recent multilateral and regulatory developments affecting sustainability purchasing in Canada, the US, UK, EU, and Asia.

Multilateral Developments

There are a number of multilateral initiatives that promote sustainable production and consumption, including the following two:

- Agenda 21 calls for government leadership in public procurement.
- Johannesburg Plan of Implementation (JPOI) reinforces the goals of Agenda 21 and other international environmental agreements, and

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mandates signatories to promote public procurement policies for environmentally sound goods and services (UN, no date).

JPOI calls for “a 10-year framework of programmes in support of regional and national initiatives to accelerate the shift towards sustainable consumption and production” to enhance cooperation and exchange of information and best practices and to facilitate the implementation of national and regional sustainable consumption and production programmes. The “Marrakech Process” was launched at the first meeting on the 10-year framework in 2003. It includes regular global and regional meetings, informal expert task forces and other activities to promote progress on the framework (UN, no date).

Regulatory Developments

The following are some regulatory developments that will affect the course of sustainability purchasing over the coming years, in North America, Europe and Asia.

Canada

The federal government created the Office of Greening Government Operations (OGGO) in 2005 in response to “the need for an identifiable leader in the federal government for greening operations and protecting and conserving the environment” (Summit Magazine, 2006, p.18). OGGO’s principal goals are to “establish government-wide priorities, accountabilities, timelines and reporting requirements to assist the federal government in its commitment to become a model of environmental excellence in its own operations.” One of the targeted activities is green procurement and OGGO is working with various government departments to implement its Green Procurement Policy which became effective in 2006. This policy is intended to make the government a global leader in integrating environmental considerations into all aspects of the procurement system (Public Works and Government Services Canada, no date).

Public Works and Government Services Canada, the agency responsible for implementing the Green Procurement Policy, is incorporating green procurement within the context of achieving value for money by integrating environmental analysis into the commodity management process for some of the goods and services that the government buys most frequently. Government purchasing instruments like standing offers will only be issued once a thorough assessment has been made of the environmental aspects of the good or service to be acquired. So far the commodity assessment process has examined such goods as computers, printers, office supplies, fuels and lubricants and furniture. Since use of many of standing offers is mandatory, government departments and agencies will have access to an ever-increasing range of greener goods and services.

Under Canada's Chemicals Management Plan, the federal government is also assessing a list of 4,000 chemicals of high concern to human health. It intends to eliminate these chemicals based on their potential to cause harm, and from 2007 to 2010 will review consumer products, food, pharmaceuticals, personal care

products, and some pesticides. The government's plan includes regulations and enforcement, restrictions on re-introduction and new uses, mandatory ingredient labelling, and ensuring good stewardship of chemical substances (Government of Canada, 2007). This work will potentially impact many product supply chains.

A number of provincial governments are adopting electronics end-of-life recycling programs for electronic equipment:

- Saskatchewan: launched the first program in early 2007
- BC: program commenced mid-2007
- Nova Scotia: program will come into effect in early 2008
- Ontario: program planning taking place
- Quebec: exploring a potential stewardship program (personal communication with representative of the Commission for Economic Cooperation, July 13, 2007)

Sustainability purchasing will be influenced as provinces adopt these programs by simplifying the process for purchasers so they will no longer have to work with suppliers directly to ensure proper end-of-life management of electronic products.

USA

In the United States, governments are federally mandated to purchase environmentally preferable products by executive order.

Executive Orders

Executive Orders to green government aim to reduce the environmental impact of the federal government's operations. The orders covering environmentally preferable products include:

- Executive Order 13101: Greening the Government through Waste Prevention, Recycling and Federal Acquisition
- Executive Order 13123: Greening the Government through Efficient Energy Management
- Executive Order 13134: Greening the Government: Developing and Promoting Biobased Products and Bioenergy
- Executive Order 13148: Greening the Government through Leadership in Environmental Management

Sustainable Project Rating Tool (SPiRiT)

Dozens of states have initiated legislation to address computer waste, with more than 60 pieces of legislation currently before 40 states dealing with electronic waste (Kovar, no date). Once enacted, state legislation governing electronic equipment end-of-life will ease the burden of end-of-life management for state level purchasers.

Sweat-Free Legislation

Many US states and local governments have laws requiring ethical, "sweat-free" purchasing. State and local government purchasers must implement these laws by including ethical requirements in their requests for proposals (RFPs).

United Kingdom

Sustainable Development Strategy

As mentioned previously, the UK Government's 2005 sustainable development strategy, *Securing the Future*, requires all government departments and their executive agencies to produce a Sustainable Development Action Plan, which must incorporate a sustainable purchasing plan.

The UK government's Sustainable Procurement Policy Framework includes targets for environmental performance that will affect its supply chain, with a significant spend of £150 billion per year. Those targets include reductions in carbon emissions from offices and road vehicles, a carbon neutral 2012 commitment by the Central Government's office estate, departmental energy efficiency improvements, waste reduction and recycling targets, biodiversity targets, and water reduction use targets (UK Government, 2007).

The Companies Bill

In 2006 the UK's new corporate legislation, the Companies Bill, entered into law with a requirement that companies disclose information on their supply chains in their annual reviews (ELN, 2007).

European Union

In 2007 the European Commission proposed targets to reduce carbon emissions from transport fuels: at least 10% of the fuel (gas and diesel) the EU will use by 2020 will come from biomass sources, replacing its current non-binding target of 5.75% by 2010 (European Federation for Transport and Environment, 2007).

The Commission has also set new targets to reduce the carbon dioxide (CO₂) emissions released by EU vehicles from 161g per km to 120g per km by 2012. "The new legislation will impinge on the European automotive industry with carmakers and manufacturers alike expected to reduce new vehicles' emissions through improved technology and processes. The rest of the gains are expected to be achieved through the increased use of biofuels and better tire technology" (ELN, 2007).

Waste from Electrical and Electronic Equipment (WEEE) Directive

The Waste from Electrical and Electronic Equipment (WEEE) Directive (2003) makes manufacturers responsible for the collection and recycling of used electronics. WEEE requires free producer product take-back in EU member states. This shifts the burden of end-of-life responsibility from sustainability purchasers to suppliers, as product take-back becomes a given, rather than a special requirement of a negotiated contract.

Restriction on the Use of Hazardous Substances (RoHS) Directive

The Restriction on the Use of Hazardous Substances (RoHS) Directive bans the use of lead, mercury, cadmium, chromium and two flame retardants (Katz, 2007). As a result of responding to concerns about RoHS compliance, greater emphasis

on environment, health and safety issues are being seen in procurement agreements (Luskin et al, 2005, p.8).

Energy-using Products (EuP) Directive

The Energy-using Products (EuP) Directive aims to improve the environmental performance of products throughout their life-cycle through the systematic integration of environmental aspects at the earliest stage of their design. It defines conditions and criteria for setting requirements regarding environmentally relevant product characteristics such as energy or water consumption, waste generation, and extension of lifetime. The design of washing machines, for example, would take into account energy, water and detergent consumption, noise and recycling ability. The lifecycle analysis would stipulate how to achieve a high level of environmental performance for the washing machine throughout its lifecycle, while avoiding transfer of negative impact. For example, the use of certain materials in the detergent should not lead to an increase of energy or water consumption.

The Registration, Evaluation, Authorization and Restriction (REACH) Regulation

The Registration, Evaluation, Authorization and Restriction of Chemicals regulation requires the chemical industry to put health and safety information on approximately 30,000 chemical substances in the EU market. The information will be entered into a database managed by a central chemicals agency, which will coordinate in-depth evaluations of potentially dangerous chemicals (Greener Computing, 2007).

The foregoing EU regulations are having a big impact on the electronics, telecommunications and automotive industries globally. “As a result, eco-compliance regulations have become a major concern of companies trying to ensure both product compliance and continued market access, which, in turn, has created a hotbed of debate. Senior executives must understand current and upcoming eco-compliance regulations to effectively prepare their supply chains to assume responsibility for the environmental impact of their products” (Greener Computing, 2007).

Japan

Japan’s Green Purchasing Law came into force in 2001. It calls for all state ministries and agencies to draw up green procurement policies and implementation plans and to report the results, and requires all state institutions to purchase designated procurement items. This will affect sustainability purchasing greatly in the country, as the government shifts its purchasing power towards greener purchasing.

China

The Chinese Government Procurement Law was adopted in 2002. It sets measures for the priority procurement of environmentally preferable products by government agencies. This law allows government agencies to purchase

environmentally preferable products (EPP) that meet criteria with up to a 10% price premium. Products include:

- Those awarded the Chinese Green Mark or foreign eco-labels with a reciprocal agreement with Green Mark;
- Product material that meets the requirements of regenerated material, recyclable production and energy savings; or
- Products which reduce social cost and have been certified by one responsible government agency or public third party.

Following a year of promotion and training, targets were set requiring all government agencies to achieve 30% monetary product procurement of EPPs in 2001, and 50% in 2002, although there was no penalty for non-compliance. Missing and incorrect data prevented monitoring of green procurement for 2001, and 2002 data showed extreme results, ranging from 90% green procurement in the Environmental Protection Administration and the Taipei City government, and less than 10% in others (Taiwan Environmental Management Association for the Asian Productivity Organization and the Japanese Green Purchasing Network, 2003). The Chinese government plans to develop a Green Purchasing Law, or relevant regulations to promote green purchasing by 2010 (Kataoka, 2006).

A 2005 amendment to the Ministry of Information Industry's Cleaner Production Promotion Law, often referred to as the "Chinese RoHS", bans six hazardous substances and requires manufacturers to use product labels that indicate the presence (or absence) of six identified hazardous substances and to provide information on their location within an electronic product. The law encompasses products in automotive electronics, radar equipment, medical devices, semiconductors and other manufacturing equipment, components and some raw materials, as well as packaging materials. The Cleaner Production Promotion Law subjects every company in the supply chain – not just the final product manufacturer – to fines for non-compliance (Greener Computing, 2007).

South Korea

The South Korean green purchasing law came into force in 2005. It requires public agencies to purchase environmentally friendly products, defined as those carrying the Korean Eco-Label or Good Recycled Mark, or other products satisfying criteria set out by Korea's Ministry of Environment in their Purchasing Guidelines of Eco-Products. Public agencies are required to provide purchasing plans for eco-products and practices and report performance annually (Kataoka, 2006).

To cover the private sector, the government adopted the Eco-Compliance Regulation, combining elements of three EU directives: Waste Electrical and Electronic Equipment, RoHS and End of Life Vehicles. Many details are yet to be specified on the scope, materials and maximum concentration values of the chemical substances cited, but there is strong indication that they will be similar to the EU RoHS (Greener Computing, 2007).

Taiwan

The Energy Conservation Act, Government Procurement Act and Notice on Implementation of Resource Conservation Activities in Taiwan provide the legal basis for public sector green procurement. Government agencies must preferentially purchase EPPs in the categories of office paper, stationary, computers, refrigerators, air conditioners, water saving toilets, and other products. The Taiwanese government set a target of 50%, and departments have achieved a 73.8% purchasing ratio. If government buyers do not conform to requirements, the finance department may refuse payment (Kataoka, 2006).

From this high level scan of regulatory developments it would appear that governments around the world are actively requiring their government departments to implement environmental purchasing programs with some differences: Asian governments are *legislating* environmental purchasing programs for their government departments, whereas other federal governments are imposing formal mandates but no legislation. Other moves by governments are to stipulate environmental standards for waste, chemicals and hazardous materials that cascade into the supply chain. There are few to no instances of regulatory-driven social or ethical requirements, albeit some US states and local governments are mandating ethical sourcing of their own agencies and departments.

7. Conclusion

The following general conclusions can be determined from this study of sustainable purchasing trends, drivers and regulatory developments:

- Sustainable and green purchasing have increased over the past few years and this trend is expected to grow, driven by business case drivers, the adoption of CSR/sustainability policies, the ripple effect of large firms, and the ongoing effects of globalization and outsourcing
- Governments are leading the way in green purchasing, some through legislated programs requiring their departments to “buy green” (particularly in Asia), and others through voluntary mandates
- There is a greater focus on green over social purchasing policies, though this is expected to change in the future, with more and more social and ethical requirements coming on stream
- Human health and toxics are highest priority green supply chain issues, which deal with human environment issues
- There are growing efforts to track the impact of sustainable purchasing programs
- High utility products and services that head up the shopping list for sustainable purchasing include paper and paper products, janitorial services and cleaning supplies, office supplies, equipment and furnishing, electronics, and building materials and services
- Many large firms track ethical sourcing issues: e.g. 54% of Fortune 100 companies

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- Ethical codes of conduct are perceived to be a limited approach to global outsourcing – future trends are expected in buyer collaborations, worker empowerment, supplier capacity building and integration into business systems and targets to guide purchasing overseas
- Advanced purchasers realize the limits of independent approaches to sustainable purchasing, and turn to collaborative efforts, including industry partnerships, supplier engagement and NGO collaborations
- Certification schemes are also collaborating to create efficiencies and improve credibility
- Over 80% of carbon savings are achievable through the supply chain; it is expected that the GHG impacts of products and services will rise in importance in the years ahead
- Government moves to regulate environmental performance of products and services will have a ripple effect throughout the supply chain, and take some of the responsibility for compliance off the shoulders of organizational buyers

This high-level review of sustainability purchasing, including its green and social elements, reveals that the coming years will see organizations using their clout in the marketplace to drive sustainability innovation and performance further into the economy. This will result in significant marketplace transformation, creating competitive opportunities for leading firms, both purchasers and suppliers. Sustainable purchasing promises to be a key driver in fostering a sustainable economy.

Case Study 1: Hudson's Bay Co. (Hbc) - A Case Study in Ethical Sourcing



Corporate Overview & Background

Hbc is Canada's largest diversified general merchandise retailer, with over 580 retail locations and nearly 70,000 employees. Hbc has 1,600 vendors from which they currently source their private label and captive brands. Most of the vendors that manufacture Hbc merchandise are located in China.

Policy & Program Scope

Hbc established the foundation for their ethical sourcing program in 1998, when they established a Code of Vendor Conduct (CVC). Their program has evolved since then into a broader Social Compliance Program (SCP), which was formalized in 2001, containing the CVC and a monitoring and remediation process, the overall goals of which are to improve factory conditions, educate buyers and share industry knowledge.

In developing their CVC, Hbc was guided by International Labour Organization (ILO) standards and general social responsibility principles. Their ethical sourcing requirements, as stipulated in the CVC, obligate suppliers to:

- meet local, regional and national laws and regulations;
- satisfy employment standards (no forced labour, no child labour, no harassment/abuse, freedom of association and collective bargaining, no discrimination, protection of health and safety, betterment of wages and benefits, reasonable work hours and overtime, a dispute resolution process);
- satisfy environmental requirements (including adhering to applicable environmental laws and regulations and taking active steps to protect and preserve the environment); and
- prevent illegal transshipping by establishing and maintaining programs to document country-of-origin verification.

Although the CVC applies to all Hbc's vendors, their monitoring program, in which they conduct factory audits to determine CVC compliance, focuses on the top 250 of their vendors producing their private or captive brands. Hbc prioritizes these vendors since this is where they have the most potential for positive influence in their supply chain. In 2006 Hbc conducted over 1,000 supply chain audits.

Key Drivers of the Ethical Sourcing Program

The following are the key drivers for the development of their ethical sourcing program.

Risk Management

Risk management was a main driver for Hbc to formalize their ethical sourcing

efforts into a Social Compliance Program. Although Hbc had created their Code of Vendor Conduct in 1998, when confronted with media attention probing the working conditions in some of the vendors they used, the company found it difficult to prove that their standards were being upheld in the manufacture of their products, since they had no process for monitoring or documenting supplier conformance with their standards.

To address the risk of damage to the company's reputation and brand, Hbc shareholders called upon management to adhere to ILO labour standards, and to report annually on supplier compliance. As a result of this desire to manage reputational risk and satisfy shareholder concerns, they developed a Social Compliance Program to communicate the expectations of their CVC to suppliers, and to establish a framework for compliance monitoring and reporting.

Demonstrates Alignment with Organizational Goals & Values

Another main driver of Hbc's Social Compliance Program was to bring their purchasing in line with organizational goals and values. The SCP not only helps improve Hbc's transparency and accountability to their internal and external stakeholders, it also ensures that Hbc plays a role in improving workplace conditions. Further, it allows Hbc to work with vendors to help advance more sustainable business operations.

Enhances Image and Brand

Reputation is extremely important to retailers for attracting and retaining customers and ensuring the financial sustainability of the business. An unintended benefit of the SCP is that it enhanced the company's brand and their image with customers. The SCP was designed to support the company's operations, ensuring that the vendors Hbc buys from are well-managed, including the ethical treatment of workers, in order to provide the best quality products. In part due to their SCP and concern for the ethical treatment of workers, HBC is perceived as a responsible corporation by their customers.

Implementation & Accountability

Hbc implements their Social Compliance Program through:

- Training external vendors and internal buyers on the SCP goals and requirements;
- Auditing priority vendors for compliance; and
- Enforcing a three-strike policy for non-compliance.

Information and Training

Hbc provides information and training on their SCP to both external vendors and internal buyers. Their Social Compliance Manual introduces new and existing vendors to all aspects of their SCP, including the CVC, and vendor monitoring and remediation process. Hbc also conducts regular vendor training sessions on the Program and Code. High priority vendors, which are their most strategic and high-volume vendors, receive more detailed information and training sessions,

including local law requirements, common audit issues, and processes for making improvements.

Hbc requires buyers in their merchandising division take an on-line training course that covers the Program and how to access vendor social compliance information. Almost 1,000 employees have completed the course since it began, 613 in 2006.

Compliance and Auditing

To confirm that vendors in their vendor pool operate in accordance with the CVC, the company uses independent audit firms to conduct audits on vendors that they prioritize according to three categories:

1. High priority vendors: the top 200 suppliers based on annual sales volume, perceived risk; and factory location;
2. Second priority vendors: all new vendors that have not yet been evaluated against social compliance criteria; and
3. Third priority vendors: all remaining suppliers.

Although all vendors are on the same audit schedule, being scheduled for audits every six months or year depending on the grade received in their most recent audit, Hbc uses the priority system to audit vendors strategically, allowing for audit flexibility to reflect the changing nature of the relationship to its vendors. For instance, one vendor may be high priority only for one season if they produce seasonal goods for Hbc, and then slip down to third priority. Another may be a new vendor (second priority) to begin with, and purchases may increase quickly enough to push them into high priority. Hbc uses this system to ensure that the time and expense of both Hbc staff and vendors is focused on its top vendors at the time. High priority vendors are therefore more likely to be audited more often than other vendors.

Three-Strike Policy

Vendors are required to fully disclose factory locations, pay for audits, and participate in the Social Compliance Program. The three-strike policy applies to vendors who default on elements of the CVC three times in an 18-month period. They are suspended from doing business with Hbc for a minimum of two years. Audit results for 2006 found that 32 vendors received one strike each. The audit results show that most vendors complied with Hbc's Code; however, factory issues are consistent year over year: employee health and safety, problems with hours and/or overtime, and insufficient wages and benefits.

Benefits, Challenges & Collaboration

Benefits

Hbc's ethical sourcing program helps the business achieve their sustainable business goals in sourcing and selling products, while the program helps Hbc attract customers who prefer to shop at a reputable retailer with shared Canadian

ethical values. Many Hbc employees are proud to be associated with a socially responsible company. Additional benefits include improved quality of supplier business relationships and improved overall product quality. Vendors also benefit from the SCP, as compliance with the program puts them in a better position to continue business not only with Hbc, but with other customers as well. The program provides a means for vendors to learn of poor performance areas and to continuously improve their operations and support their factory workers.

Challenges

As with any change, Hbc experienced growing pains as they began implementing the program: employees, buyers and suppliers faced the challenge of understanding the new SCP and the associated policies and procedures. Suppliers demonstrated some initial resistance to implementing the changes required as a result of the factory audits. Since purchasing is a timeline-driven activity, the biggest obstacle has been for Hbc's buyers to adjust their schedules to allow adequate time for the auditing program's results to be integrated into purchasing decisions.

Collaboration

Hbc joins in collaborative industry efforts to advance ethical sourcing globally by participating in the Retail Council of Canada's sponsored initiative, the Canadian Retailers Advancing Responsible Trade (CRART) group, which includes leading retailers and experts representing consumer, academic and industry perspectives. Their mandate is to encourage the adoption of responsible trading practices by Canadian retailers and to be a source of information for interested consumers. The firm also works with Canadian and international retailers, global and national retail industry associations and the Canadian federal government on common ethical sourcing issues. Hbc participates in Fair Factories Clearinghouse (FFC), a joint industry effort to improve factory workplace conditions by sharing factory information, and liaises regularly with the Maquila Solidarity Network's Ethical Trading Action Group (ETAG) on ethical sourcing issues and opportunities.

Next Steps in Program Evolution

In 2006 Hbc began to expand their Social Compliance Program beyond their initial focus on compliance with environmental regulations and minimum workplace standards to include measures to reduce carbon in the supply chain and efforts to positively influence the health of factory workers.

They are currently collecting greenhouse gas emissions data to determine the carbon footprints of vendors, with the goal of reducing their vendor's overall carbon impact and thus the impact of Hbc's products. Hbc are also beginning to address worker health issues by conducting research on the impact that hepatitis, HIV/AIDS and other diseases can have on the workforce. In future years they will consider how to address carbon and worker health within their ethical sourcing program.

Further Information

For more information, please see Hbc's Corporate Social Responsibility site at www.hbc.com/hbc/socialresponsibility, or contact social.compliance@hbc.com.

Case Study 2: Catalyst Paper - A Case Study in Eco-Certified WoodFibre Sourcing



Corporate Overview & Program Context

Catalyst Paper are a leading producer of mechanical printing papers in North America. They also produce market kraft pulp and own Western Canada's largest paper recycling facility. Catalyst have nearly 4,000 suppliers, spending approximately \$1B annually on wood fibre, electricity, oil and natural gas, chemicals, machinery, transportation, and other business necessities. Catalyst is the single largest purchaser of forest fibre in BC.

Policy & Program Scope

As a significant purchaser of BC forest fibre, Catalyst focuses most of their sustainability purchasing efforts on fibre sourcing, to ensure that their suppliers meet the company's environmental standards. They follow a certification

approach in order to authenticate the environmental qualities of their paper, the first component of which is an assessment of forest management practices, to ensure the wood is sustainably harvested. The second step is product certification or "chain

"Sustainability has long been a consideration for resource-dependent companies. Yet society's expectations of us as good stewards of natural resources have never been higher or more widely held than today. Sustainability – and climate change in particular – is at the top of public opinion polls across the continent. Green consumerism is driving sustainability more deeply into the business-to-business supply chain served by paper producers."

-Catalyst Paper 2006 Sustainability Report

of custody" assessment, wherein a respected independent party verifies in a written statement (or certificate) that the timber product to be purchased originates from a supplier that adheres to accepted practices of forest management as defined by the certifying body. The function of certification for the chain of custody is to provide for environmental labeling to identify to the consumers that the wood products to be purchased are actually derived from forests that have been certified as following sustainable harvesting methods. The chain of custody system allows for tracking of forest products from forest transport to primary processing, from primary processing to secondary processing and finally to trade and retail outlets where products reach the consumer. Each processing facility along the harvesting to consumer chain must obtain a chain of custody certificate.

Catalyst's approach to sustainable fibre sourcing consists of:

- 1) An annual review of fibre suppliers; and
- 2) A chain of custody management system for their certified fibre, called their Chain of Custody Program.

This is one component of their broader sustainable purchasing efforts that incorporate general social and environmental considerations into their buying

decisions. Potential new suppliers are asked to provide RFP information on their sustainability performance, which is evaluated alongside quality and cost considerations. Evidence of corporate social responsibility programs and documented health, safety and human rights policies, product stewardship initiatives, carbon reduction programs, etc. help Catalyst in supplier selection. Catalyst will extend this effort in 2008 to include existing suppliers who will be surveyed for this additional information, starting with Catalyst's top 10 suppliers in terms of annual spend (\$10 – 20M), and subsequently expanded to the top 25% of suppliers representing 75% of their overall annual spend.

Key Drivers of the Chain of Custody Program

The following are the key drivers for Catalyst's Chain of Custody Program:

Enhances License to Operate with Communities and the Public

Forest product companies are subject to regular public and media scrutiny. Activist groups such as ForestEthics and Greenpeace are using high profile campaigns to pressure paper purchasers to buy from the most environmentally sound sources. Catalyst's sustainable fibre sourcing program has created positive attention for the firm in an industry that is often criticized for unsustainable forestry management practices.

Since Catalyst operates in rural areas, drawing their labour pool from nearby communities, they are also directly accountable to the small communities in which they operate. Positive public perception has resulted in strong community and employee relations, enhancing the company's license to operate within the local setting.

Attracts Customers and Helps Meet Expectations for Sustainable Products

Catalyst's certified Chain of Custody paper sourcing has won them new customers and increased sales. Catalyst has experienced significant sales increases since the introduction of its Chain of Custody certified paper. Sales jumped 75% from 2004 to 2005, increasing another 36% from 2005 to 2006.

When Catalyst introduced their boreal-free forest paper in response to concerns over unsustainable logging of one of the largest remaining intact forest systems in the world, they began receiving orders immediately, clearly filling a market need for products that meet high environmental standards. This market demand further reinforced their commitment to their Chain of Custody program.

Demonstrates Alignment with Organizational Goals and Values

Sustainable sourcing is a means for Catalyst to meet their overall corporate sustainability goals. Those goals include integrating sustainable business practices, supporting vibrant communities, and having respect for nature. Their Chain of Custody fibre sourcing program is one of the ways in which they are

able to encourage the forest industry to take up forest management certification, one of their specific corporate objectives.

Implementation & Accountability

Chain of Custody Program

Catalyst's Chain of Custody Program was implemented in 2004. The Program includes a fibre sourcing policy, which commits Catalyst to:

1. Procure wood fibre supply from well-managed, sustainable forests;
2. Verify harvesting methods through third party certification; and
3. Ongoing review and improvement of the Chain of Custody Program.

Annual Fibre Review

Catalyst ensures that their wood fibre suppliers adhere to sustainable forest management practices through annual supplier surveys. Catalyst surveys all of their wood fibre suppliers each year; 85 supplier surveys were conducted in 2007. The survey assesses supplier sustainability performance and confirms third party certification under one of three sustainable forest management standards: the Forest Stewardship Council, the Canadian Standards Association Canadian National Forest Management Standard or the Sustainable Forestry Initiative.

The company's Fiber Supply Group is responsible for conducting this annual review. Both the Director of Fibre Supply and the Director of Procurement report to the VP of Supply Chain and Information and Technology, integrating information flow and decision-making between both supply and procurement groups.

Verification and Accountability

Catalyst conducts internal and external audits to provide assurance on the credibility of their Chain of Custody Program: internal teams from each division audit the chain of custody systems of other divisions, and they are subject to external audits from an independent audit firm.

Continuous Improvement

Catalyst is focused on continuous improvement of their Chain of Custody Program. The results of annual management reviews are combined with recommendations from the internal and external audits to provide a roadmap for program enhancements.

Benefits, Challenges, and Collaboration

Increasingly purchasers are looking to source paper that meets their environmental goals. Catalyst faces the challenge of proving to their customers they do what they say they are doing. Being "green" is not an easy

accomplishment for a pulp and paper company, so proving to their customers that Catalyst is socially and environmentally conscious is a company priority. Continually striving to maintain and enhance their reputation within communities, and to their customers, Catalyst seeks to do everything possible to preserve, protect, and replace the trees consumed for production.

One of the main benefits of the Chain of Custody Program is that it has allowed Catalyst to prove to their environmentally-conscious customers that the fibre in the paper they buy is secured through a guaranteed source. Because the Program is openly auditable by Catalyst's customers, the program provides the firm with the means to assure their customers that they are purchasing paper certified by an air-tight certification system.

Next Steps in Program Evolution

In 2007 Catalyst amalgamated seven division-level Certified Chain of Custody sub-programs into one corporate program in order to ensure that all divisions operate under the same verification and continuous improvement approach. The new corporate program is managed by Catalyst's new Fibre Supply Group. Each of the seven sub-programs within the corporate group will continue to have their own representatives, but now operate under the same Chain of Custody guidelines. Further work will be undertaken to streamline and integrate all systems into one approach.

Future sustainable purchasing plans include incorporating sustainability dimensions into their purchasing software so they can track and evaluate supplier sustainability performance and extending their supplier sustainability surveys to their existing suppliers.

Further Information

For more information, please see Catalyst's Social Responsibility site at <http://www.catalystpaper.com/socialresponsibility>, or contact Jennifer Mercer, Sourcing Manager Supply Management (Powell River Division) at (604) 483-2898 or jennifer.mercer@catalystpaper.com

Glossary

CEC: Commission for Economic Cooperation

CFC-free: Chlorofluorocarbon-free

CRART: Canadian Retailers Advancing Responsible Trade

CSR: Corporate Social Responsibility

EPP: Environmentally Preferable Products

EU: European Union

EuP: Energy-using Products Directive

ETI: Ethical Trading Initiative

FSC: Forest Stewardship Certification

GDP: Gross Domestic Product

GEN: Global Ecolabelling Network

GHG: Greenhouse Gases

HR: Human Relations

HVAC: Heating, Ventilation and Air Conditioning Unit

ILO: International Labour Organization

ISEAL: International Social and Environmental Accreditation and Labelling

JPOI: Japan

MSC: Marine Stewardship Council

NAFTA: North American Free Trade Agreement

NGO: Non-Governmental Organization

OGGO: Office of Greening Government Operations

PwC: Price Waterhouse Coopers

REACH: The Registration, Evaluation, Authorization and Restriction Regulation

RoHS: Regulation on Hazardous Substances

SPiRiT: Sustainable Project Rating Tool

TCO: Total Cost of Ownership

UN: United Nations

WEEE: Waste from Electrical and Electronic Equipment Directive

WTO-AGP: World Trade Organization Agreement on Government Procurement

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Appendix A: Sustainability Purchasing Network Guide to the Business Case and Benefits of Sustainability Purchasing At A Glance³



Sustainability Purchasing Benefits at a Glance

www.buysmartbc.com

The following is an overview of the financial, management, environmental & socio-economic benefits of sustainability purchasing taken from the SPN's *Guide to the Business Case and Benefits of Sustainability Purchasing* (November 2006).

Financial Benefits

Reduces Costs

- Reduces material & utility costs
- Reduces waste disposal costs
- Reduces health & safety costs
- Reduces operating, maintenance & replacement costs
- Increases operational & economic efficiencies
- Reduces legal & insurance costs

Enhances Image & Brand

- Attracts customers & helps meet expectations for sustainable products
- Enhances license to operate with communities & governments

Eases Regulatory Burden

- Simplifies compliance with environmental, health & safety regulations
- Demonstrates due diligence
- Forestalls government regulation & oversight
- Eases environment, health & safety reporting requirements

Improves Access to Capital

Management Benefits

Demonstrates Alignment with Organizational Goals & Values

Reduces Business Risks

Improves Supply Chain Management & Product Innovation

- Helps suppliers better understand purchaser needs
- Promotes product innovation

- Enhances business opportunities

Manages Human Resources More Effectively

- Helps attract & retain talent
- Improves employee productivity

Environmental Benefits

Reduces & Prevents Waste

Reduces Resource Use

Reduces Pollution & Toxins

Reduces Greenhouse Gas Emissions

Maintains Biodiversity

Socio-Economic Benefits

Improves Wage Levels & Working Conditions & Advances Human Rights

Improves Employee Health and Safety

Develops Markets for Sustainable Products

- Stimulates demand for sustainable products & growth of sustainability sector
- Stimulates sustainable product development
- Enhances access to sustainable products by lowering costs

Promotes a Strong Local Economy & Reduces Local Taxes

Supports vulnerable groups, provides community services & reduces public expenditures

Promotes Economic Opportunity & Benefit-Sharing with Indigenous People

Improves Conditions in the Developing World

Connecting organizations to buy smart and foster a sustainability marketplace.

³ Sustainability Purchasing Network. (2006). Benefits of Sustainability Purchasing At A Glance. Accessed November 5, 2007 from <http://www.buysmartbc.com/resources.html>.