

Climate change, carbon and cars

In every decade some words take on a new meaning. 'Carbon' was an element from the periodic table and rarely got a mention outside sciences classes. How things have moved on. Climate change is seen as one of the greatest threats of our time – ignoring it could cost us up to 20% of global GDP according to the influential and respected Stern Review on the Economics of Climate Change. This view is supported by the International Energy Agency when presenting their World Energy Outlook 2007 and also by the Inter Governmental Panel on Climate Change.

This Knowledge Byte assesses how government policy impacts purchasing and supply chain management in general and the public sector in particular. Examples are given from the motor vehicle industry.

Carbon dioxide is seen as the main component of a basket of greenhouse gases (GHG's) contributing to climate change. Recognising this, the European Commission set in motion legislation to tax carbon use and drive member states towards a low carbon economy. Under the European Union's CO2 emissions trading scheme (ETS), emissions for the UK (at the national level) will be capped at 246.2 million tonnes (2008-12). This means that organisations producing large amounts of CO2 have to be part of a carbon trading scheme now worth €20 billion. At the EU level the target is to reduce GHG emissions by 50% by 2050, with an interim target of 20% by 2020 (based on 1990 levels).

In the UK, the baseline was set that 10% of energy requirements would be from renewable sources by 2010 and 20% by 2020. Security of supply of energy for

operations has been one issue the supply chain has had to manage, but manufacturers also have to innovate and bring new products to market. The Renewable Transport Fuel Obligation in the UK requires that 5% of all road fuel supplied is from renewable resources by 2010. Allied to this are proposals to update the 1998 Fuel Quality Directive, and the mandatory reporting of lifecycle greenhouse gas emissions for fuel from 2009.

Legislation has driven change in the supply chain – from energy producer's right through to consumers. How has this affected the purchasing and supply chain professional in general?

- There has been a need to work towards a low carbon, sustainable supply chain. This requires an awareness of other government legislation affecting waste and obsolescence in the supply chain. This is aligned to issues of achieving security of supply.
- Purchasing and supply management professionals have a duty to work within the organisation to manage risk. Legislation brings obligations. A failure to adhere to them can have severe consequences for the organisation.
- Whole life costing is one of the key tenets to excellent practice. Government legislation is giving renewed focus to this important aspect in supply chain management.
- Government policy presents an opportunity for product innovation. In one example, carbon emissions from vehicles is the measure by which company car taxation is based, and also the basis for road vehicle licence taxation in the UK. CO2 vehicle emissions currently average around 160g/km. Some motor vehicle

manufacturers have taken advantage of the opportunities to develop hybrid (petrol/electric) cars like what Toyota did with their Prius model. Others have followed, including models such as the Volkswagen Bluemotion Polo, the Toyota Aygo and the Honda Civic hybrid. These innovative products can command a premium price in the market and broaden the customer base.

Sustainable procurement, as a part of sustainable development is a high visibility area attracting much public attention. Through the Stern Review, and the Sustainable Procurement Task Force recommendations in Procuring the Future, the UK is seen as global leaders in the fight against climate change. Purchasing and supply management professionals are increasingly aware of stakeholder focus on them and the reputations of their organisations.

The UK public sector needs to be seen to be furthering the sustainability agenda through bodies such as the UK Department for Environment, Food and Rural Affairs (DEFRA). Legislation has been a driver of change in the supply chain, but there are challenges ahead for the public sector – to reconcile sustainable procurement requirements with delivering more value with fewer resources. Further information on the impacts of legislative change can be found on the Professional Resources area of the CIPS website.

Rene de Sousa Senior Procurement Specialist CIPS