



WHITE PAPER

Reducing the Supply Chain Carbon Footprint for The Federal Government

Summary of Roundtable, hosted by ATARC on October 7, 2021

More than three-quarters of greenhouse gas (GHG) emissions associated with many industry sectors come from their supply chains. For that reason, a growing number of leading companies are engaging in managing GHG emissions. Over the past few years, companies have incorporated systems for reducing GHG emissions into their business practices and are now seeking ways to drive down emissions beyond their operations. However, there is a lack of consistency for reporting requirements. Some companies are asking their suppliers to report emissions data directly to them. Other businesses, on the other hand, are using third-party reporting programs. Different companies are working with industry peers to develop shared infrastructure to report GHG emissions more efficiently.

The Federal Government is stepping up as well, as it responds to different executive orders. Recent executive orders call for all Federal agencies to measure and reduce the GHG emissions associated with their operations. It also seeks the reduction of carbon impacts of the products and services from vendors and contractors. The Federal Government is taking the first steps toward engaging key suppliers within its massive supply chain base by encouraging them to measure and report their GHG emissions, with the view of incorporating emissions management performance into its future procurement decisions.

The Federal Government Driving Sustainable Procurement Policies

Currently, the US General Services Administration (GSA) is working to advance various policies that the Biden Administration has prioritized to reduce its carbon footprint. Many of those priorities affect the federal acquisition landscape, especially the supply chain upon which the Federal Government relies—from emergency response to the pandemic to advancing equity and racial justice to addressing the economic crisis to advancing sustainability plans in the federal marketplace.

The GSA manages about \$75 billion in annual contracts. Every year has somewhere around \$45 million worth products on FAS acquisition vehicles and ecommerce platforms. As the GSA transacts with agencies, they are keeping an eye on the carbon footprint of these acquisitions. Reviewing the Federal Government's supply chain will enable the GSA to better consider greenhouse gas emissions in the procurement process. Today, the GSA is reviewing upcoming government-wide acquisition vehicles and, for certain procurements, requiring contractors to disclose and reduce GHG emissions as a post-award requirement.

GHG Emission Disclosures

Standardization is needed to define disclosures as:

- ❖ Science-based targets versus percentage reduction
- ❖ Required versus voluntary
- ❖ Calculation basis - product lifecycle or other timeline
- ❖ Third-party verification requirements

The Government has vast purchasing power and can really drive change towards more sustainability and climate adaptation within the procurement process, especially now that the Biden Administration has prioritized tackling climate crisis. Federal suppliers may have to disclose GHG emissions and climate-related financial risk, to name a few examples.

An Effective Approach to Reduce the Carbon Footprint for Industry

Goals for carbon reduction are still new to many in the procurement sector, and both clients and industry partners need time to adjust and develop new competencies. In countries with a longer history of carbon management, procurement strategies and requirements have advanced through continuous interaction between clients and industry actors over longer periods of time. Procurement requirements are considered important for driving carbon reductions in all countries, but the preferred style of these requirements vary.

The Federal Government wants to minimize climate risk and account for the social cost of carbon in their decision-making. Based on these metrics, the Federal Government can in turn direct policy by prioritizing suppliers who can provide goods that will lower the social cost of GHGs.

Standardizing Disclosures

Two of the mechanisms discussed are GHG emission disclosures and post-award requirements to reduce GHGs. On the disclosure side, there are established frameworks that are relatively easy for industry to use. However, the exact nature of the GHG disclosures will need to be defined—whether they are science-based targets or a certain percentage reduction. Additionally, policymakers will have to decide whether the disclosures will be required or voluntary for companies procuring with the Federal Government, whether they need to be calculated based on the lifecycle, and whether they will need to be third-party verified. Such criteria is currently being explored in technical committees and government circles.

Companies vary greatly in what they measure and disclose due to the lack of standardization of sustainability disclosures—which are currently voluntary in the US. If a company reports a decline in its carbon footprint, it generally does so because it behooves the company to make that disclosure. Meanwhile, there are no set standards for reporting them. When it comes to public companies, the data may include generic information that is not particularly useful to investors or other users.

In addition to disclosure challenges, on the GHG reduction side, small and medium enterprises (SMEs) do not necessarily have the resources to complete full, third party-verified emissions inventories as large corporations would be able to do. By using a phased approach, implementing outreach programs targeted to small businesses, and leveraging existing streamlined reporting tools that small businesses can use, the government can ease the burden on this supplier group while still collecting meaningful GHG emissions data. It is equally important to note that small businesses may have operations that are not as complex as their larger counterparts; therefore, small businesses may find it easier to calculate their GHG inventories.

By using a sector-by-sector approach, the Federal Government can award companies that embrace good

practices for reducing their carbon footprint that do not necessarily involve reporting measures. Some metrics on how to award companies include certifications such as EnergyStar plant recognition for superior energy performance. Companies will need the right systems in place, such as the [ISO 50,0001](#) certification or an EnergyStar green building award or using the right green technologies to reduce GHG emissions to further boost their green credentials and demonstrate how they are mitigating climate change. The Federal Government could even turn to a carbon labeling system that would label products that meet government sustainability criteria and would account for a number of different GHG-reduction metrics.

Ultimately, if sustainability disclosures are to become widespread, it might be necessary to mandate such reporting and to impose a set of regulatory standards. The government can also leverage former non-standardized disclosures from companies to evaluate and compare their practices and risks. By normalizing GHG emissions in products produced, the carbon labeling system could demystify how much GHG emissions go into making products and how they are offset.

A prime example comes from the cybersecurity world which managed to harmonize standards as well as financial incentives across companies to improve products. One of the best standardizations in the field of cybersecurity is the National Vulnerability Database. It is product-specific data assembled to be electronically analyzed, which in turn allows software from organizations to make an impact. This type of system could be adapted to record carbon-intensive companies or products to track climate risk. Also, the Federal Government has an opportunity to outsource their IT needs to cloud-based companies that meet green standards. Yet, with these new green standards, the Federal Government will need to be aware to not close the door to small and medium-sized businesses. They will need financial help to meet GHG disclosure and reduction standards in order to be competitive with larger companies.

How Industries Consider and Manage Long-Term Climate Risks

Climate change is playing a growing role in business competition. GHG emissions are increasingly scrutinized, regulated, and priced. Industries that persist in treating climate change solely as a corporate social responsibility issue rather than a business problem will risk great

consequences. Of course, climate policies for industry will be affected by stakeholder expectations and standards for social responsibility. Yet, the effects of climate change on operations are now tangible and are best addressed with dynamic strategies.

Realistically, there is no one-size-fits-all approach to determining climate risk. Each industry approach depends on its business and should mesh with its overall strategy. The variety of plans for different sectors must include initiatives to mitigate climate-related costs and risks in its value chain. Business leaders need to consider the cost of carbon emissions because they can be costly otherwise. Additionally, companies need to assess and reduce their vulnerability to climate-related environmental and economic shocks as well as determine their natural capital value. Every firm needs to get those basics right as a matter of operational effectiveness and resilience.

Further, industry needs to evaluate its vulnerability to climate-related effects such as regional shifts in the availability of energy and water, the reliability of infrastructures and supply chains, and the prevalence of infectious diseases. Leaders should systematically and regularly assess these risks and then decide which to reduce or mitigate. For example, redesigning operations or transferring the risk to others through insurance or hedging contracts. Leaders can then determine how much risk is acceptable and within their risk tolerance. Standardization of GHG reporting and sustainability assessments has needed to occur for decades, so the GSA has a real opportunity to push the agenda with their procurement power.

Recommendations

Based on the roundtable, here are some recommendations to the target group of policymakers and clients.

Policy Level – National, Regional, and Organizational

Set high-level goals and policies for carbon reduction to sanction ambitious initiatives that contribute to setting new industry standards.

- Reduce barriers for innovation-oriented procurement requirements, engage industry associations, and encourage initiatives by supply-side front-runners.
- Address the roles of the client and other parties for implementation when developing organizational policies and strategies.

Project Level Policies and Procurement Requirements

- When defining requirements, consider implementation costs for setting and following up with carbon-reduction requirements, especially for small- and medium-sized businesses who may lack the capital to be competitive under the new guidelines. The focus should remain on mitigating carbon emissions through carbon management plans, which may include assessments of behavioral risks associated with carbon-reduction incentives.
- Ensure that requirements will effectively influence all relevant decision-makers in the supply chain (such as for design engineers, constructors, contractors, subcontractors, third-party suppliers and resellers, and material suppliers). It implies that time, competence, and resources should be available at relevant points in the supply-chain.
- Apply a long-term learning perspective and acknowledge that different combinations of award and selection criteria, reduction requirements, specific requirements, and rating schemes may be preferable over time.
- Align requirements and activities with general contracting models and encourage models that enable integration of knowledge and carbon management into the supply chain.

Innovation and Learning

- Develop guidelines, tools, and training programs to help build industry capabilities.
- Establish which organizations should drive development—for example, commission, host, and update guidelines, and provide training and support.
- Communicate plans for raised ambitions well in advance, for example, requirements to comply with established carbon management standards and rating schemes.
- Orchestrate long-term innovation by combining small pilot projects to test new solutions with systematic implementation into larger projects to achieve wide-market dissemination.
- Establish transparent procedures for updating client standard specifications based on frontrunner initiatives, planned pilots, and academic research.
- Innovation should also address contracting and business models: develop institutional capabilities that enable and legitimize long-term, strategic collaborative alliances.