

# Summary

This report analyses the prerequisites for enabling public procurement to work as a goal- and cost-effective environmental policy instrument. The ambition that 25 per cent of the food procured by the public sector is to be organic is also discussed in connection with this. The question is whether public procurement of organic food is an effective means of achieving the goal that 20 per cent of the arable land in Sweden is to be certified for organic agriculture.

## *Background*

The ambition of pursuing environmental policy via public procurement is based on the fact that in many countries, public sector purchases account for a considerable share of the economy. Among EU Member States, public sector procurement of goods, services and contracts amounts on average to 16 per cent of GDP. By taking environmental considerations into account in procurements, known as 'green public procurement', public authorities and entities (hereafter authorities) are assumed to be able to influence private production and consumption in a more sustainable direction. How well green public procurement works, however, is basically dependent on how producers and consumers in various markets react to these procurement procedures. In this report, we discuss the relationship between the political arguments used to justify green public procurement and the market mechanisms to which the arguments refer.

Public procurement is not primarily an environmental policy instrument. The main aim in any procurement is to satisfy a need (i.e., a product, service or contract) an authority has in order to conduct its activities. In other words, the main aim is not to reduce stress on the environment. Nor does the legal framework, such as

the EU directives and general legal principles regulating public procurement, have the environment as its primary focus. Rather, legal principles are to secure effective competition by ensuring equal terms for potential suppliers within the EU in the competition for public contracts. This does not necessarily imply reduced environmental impact at the lowest possible cost to society. It is not even certain that the procurement will reduce impact on the environment.

### *Public procurement as an environmental policy instrument*

As a policy instrument, green public procurement works as a substitution and/or transition policy. In the first instance, authorities substitute a less environmentally harmful (henceforth called *green*) product for another, more environmentally harmful (henceforth called *conventional*) product. The purpose of a transition policy is to directly steer suppliers' production processes with the aim of encouraging investments in less environmentally harmful technologies (production).

To answer the question of whether public procurement is an effective environmental policy instrument, we have used two different effectiveness concepts: goal-effectiveness and cost-effectiveness. Goal-effectiveness concerns an environmental policy that leads to emissions reductions that are predictable and desirable in advance. Cost-effectiveness means that the emissions reduction resulting from a policy occurs at the lowest possible socio-economic cost.

Based on previous research, our report shows that green public procurement has very limited potential to function as a goal-effective environmental policy instrument. One explanation for this is that suppliers themselves choose whether they will participate in a procurement procedure. They will only do so if the cost for delivering the object of the procurement and any investment that may be required to meet the environmental standards demanded are less than the expected return from winning the contract.

Another explanation why green public procurement has a small potential to work as a goal-effective instrument is that the market forces are likely to work in the opposite direction. Given that the procuring authority is an significant actor in the market, the

market prices of *both* green and conventional products will be affected by the purchases. Reduced demand for conventional products by authorities will lead to the price of these goods falling, while the price of green products will rise. This means that the demand among other consumers for conventional products will rise at the same time as it will fall for green products. Authorities' green purchases will consequently have a counterproductive effect among other consumers. Nor can it be ruled out that authorities' environmental considerations could lead to a rise in society's total consumption of green *and* conventional products, potentially resulting in an increased impact on the environment.

In summary, the net effect of green public procurement on the environment is determined by how price sensitive consumers and producers are, how strong an influence the procuring authority has as a purchaser, and how large the environmental impact is of the conventional product versus the green product.

The intention of public procurement as a transition policy is to encourage suppliers to stop producing for the conventional market and instead produce for the green market. In order for suppliers to do this, it must be profitable. If the authority's purchases only account for a small part of the suppliers' turnover, the likelihood of transition is relatively low.

Nor can green public procurement be considered a cost-effective environmental policy instrument, i.e. it does not lead to potential suppliers reducing their emissions at the lowest possible cost to society. This is the result of procurement being an administrative and/or quantitative instrument and not an economic instrument. Administrative instruments require, for example, that a certain technology or a certain material is used in production, while quantitative instruments aim to directly regulate emissions quantities. Furthermore, the EU procurement directive involves important legal restrictions concerning the possibility of setting supplier-specific administrative and quantitative requirements that are necessary (but not sufficient) for a cost-effective outcome. From a cost-effectiveness perspective, economic instruments are preferable as they put a price on emissions so that suppliers adapt to minimise their costs, i.e. each one reduces its emissions until the marginal cost for further reductions is equal to the cost of additional emissions. Unlike green public procurement, this does not necessitate complete information about the suppliers' production technologies.

*Policy instruments for food markets*

Sweden has an environmental policy goal that 20 per cent of its arable land is to be certified for organic farming. To achieve this, there is an aim that 25 per cent of public sector food purchases consist of organic foods. Originally, the ambition was that both goals would be achieved by 2010. This did not happen, however, but the efforts to achieve them are ongoing.

The wording of the 25 per cent goal implies that the public sector is considered a pioneer in the food market. By procuring organic rather than conventional foods, it is assumed that the public sector can create incentives for Swedish agriculture to make the transition from conventional to organic production. To relate to the general discussion about policy instruments above, this is primarily a substitution policy in which authorities substitute organic foods for conventional ones. It is consequently not a question of a transition policy in the sense that authorities demand that suppliers transfer to organic production, even though the long-term ambition is that substitution should lead to this.

Public sector consumption accounts for approximately 4 per cent of the total food market and thus the sector cannot be considered a significant actor in the market. The possibility of influencing private production and consumption must therefore be considered severely limited.

A majority of Sweden's municipalities, county councils and regions have goals for their purchases of organic foods, and organic products often command a higher price than conventional ones. To cover the additional costs involved in purchasing organic foods, authorities must therefore change the composition of their food purchases and/or its quality, reallocate resources from other parts of their activities or raise taxes and fees.

One reason why it may be difficult to achieve the goal of organic certification of arable land in Sweden through public procurement of organic foods is that a significant proportion (approximately half) of the organic foods procured are imported. Another reason documented in empirical research is that private consumer demand for organic foods is relatively price sensitive, and in some cases very price sensitive.

In summary, it can be said that there is little evidence that public procurement is a viable tool for moving towards the goal of increased organic arable land in Sweden. This is primarily due to:

- (i) the public sector being a small actor in the food market,
- (ii) the share of organic foods that are imported is relatively high, and
- (iii) private consumers are relatively sensitive to fluctuations in the price of organic foods.

### *Conclusions – recommendations*

Our central conclusion is that public procurement should not be used as an environmental policy instrument. This applies in general and regardless of market, i.e. even for the food market examined here.

The market conditions needed to enable green public procurement to function as a goal-effective environmental policy instrument have not yet been fulfilled. Even if they had been, green public procurement has limited potential to be a cost-effective instrument. It should also be added that there is a risk of authorities' green public procurements taking place at the expense of the possibility of achieving the organisation's own goals through procurement instruments.