

Greening the FEDERAL SUPPLY CHAIN

How to Comply with Executive Order 13514

By John Wilkerson

On October 5, 2009, the newest Federal Government Supply Chain challenge became a reality when Presidential Executive Order 13514 (Federal Leadership in Environmental, Energy, and Economic Performance) was signed and published. Order 13514 requires government agencies to set 2020 sustainability targets within at least 90 days. Combined with the H.R.2454 – American Clean Energy and Security Act of 2009, passed in July 2009, the “wait-and-see” is over. Now is the time for action.

Wait a minute. Is everyone on board? What are the implications of no action? During a recent Green Tech Media survey, 74 sustainability executives ranked improving sustainability/environmental activities as fourth on the corporate supply chain priority list. Here are the amalgamate results (priorities) from this survey group:

1. Improving Supply Chain Service
2. Reducing Supply Chain Risk
3. Managing the Supply Chain
4. Improving Sustainability/Environmental Supply Chain Activities
5. Improving Manufacturing Efficiency
6. Improving the Global Supply Base

This article offers a methodology for green supply chain transformation, potential challenges, and implications for not acting.

METHODOLOGY

The Federal Leadership in Environmental, Energy, and Economic Performance E.O. implies a simple and well-crafted sustainability strategy that is applicable for big, mid-sized, and small businesses, as well as non-profits, federal, state, and local governments. The Carbon Footprint Reduction (sometimes called Greenhouse Gas – GHG) strategy most corporations are using (or will use in some form) includes Carbon Footprint Measurement; Implementation; Monitoring; and Control and Reporting. This four-step process sounds simple but could be overwhelming if not planned and budgeted for FY 2010. Here’s a high-level breakdown of the measurement to reporting phases.

GHG Measurement is the measurement of the enterprise’s impact on the environment through its carbon (CO₂) and other greenhouse gas emissions released into the atmosphere. Federal contractors such as logistics companies, rail, ocean, and air carriers, lead logistics providers, brokers, forwarders, reserve logistics operators, and other supply chain partners generate CO₂. GHG emissions are emitted in trucking, air cargo operations, traffic management, ocean port operations, distribution center management, travel, payroll, accounting, truck maintenance, and so on.

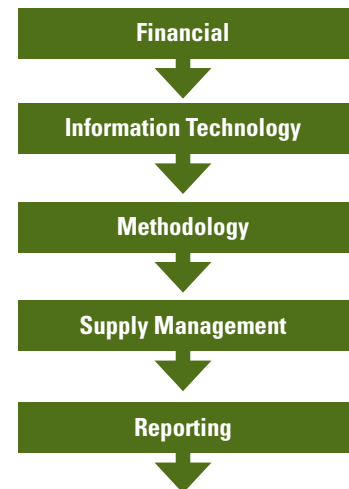
The enterprise **first operational step** beyond the planning phase is measuring the enterprise GHG and Water Footprint output. The contractor Chief Procurement Officer (CPO) and Chief Sustainability Officer (CSO) teams are key team members of this GHG Measurement Initiative because of the tier 1, two-supplier measurement requirement and technical environmental expertise. According to Executive Order 13514, a federal agency must reduce and optimize their GHG and Water Footprint by FY 2020. In order to comply with this mandate, most government agencies will incorporate this requirement into existing or future contracts in the near term. This task could prove daunting for federal supply chain providers who serve multiple agencies. Both tier 1 and tier 2 contractors must get on board sooner rather than later because of the time requirement for GHG and Water measurement and optimization.

GHG Reduction Implementation planning and execution could be the most time consuming and most expensive phase for many global supply chains. Here’s a scenario to frame the thought process: Assume a critical Distribution Center near the North Pole can only ship its product via air freight to a Rhode Island Distribution Center because of product specifications and mission requirements. If there is an alternative Supplier in the country of Iceland who can ship via ocean directly to the Rhode Island Distribution Center, the logistics provider, demand, and sup-

ply planners must collaborate and consider carbon footprint as part of the sourcing decision-making process. In the future, GHG will add complexity to buying, demand, supply, and transportation plan-

Carbon Footprint Reduction Methodology	
GHG Reduction Methodology	Strategic Sourcing Responsibilities
Strategic Planning	✓
GHG Measurement	✓
GHG Implementation	✓
Monitor, Control, Reporting	✓

Carbon Footprint Reduction Challenges



ning organizations. Other topics that senior logisticians should contemplate during the implementation phase include:

- Tier 1 Supplier Footprint Strategy
- Tier 2 Supplier Identification & Carbon Footprint Strategy
- Direct & Indirect Spending Categorization
- Offshore versus Near Shore Sourcing Strategy
- Carbon Offset versus Carbon Footprint Reduction
- Commercial versus Government Carbon Footprint Strategy

Assuming the contractor's CPO and CSO organizations follow the Greenhouse Gas & Water Optimization path, **Monitor, Controlling, and Reporting** Carbon Footprint savings has the potential to be a new career field by early 2011. These duties are likely to be housed with the CSO, but the CPO must clearly be part of the integrated team. Forward thinking CPOs will incorporate metrics into existing supplier development programs such as:

- Supplier Air Emissions by Product or Facility and Category
- Supplier Water Utilization by Product or Facility
- Supplier Hazardous Water Generated by Product or Facility

POTENTIAL CHALLENGES

The US House of Representative bill 2454 – American Clean Energy and Secu-

riety Act of 2009 and Federal Environmental E.O.13514 – Federal Leadership in Environmental, Energy, and Economic Performance was crafted in response to market shifts and the global warming push. Federal Environmental Leadership and the Federal Government Supply Chain have landed on the desks of the global supply chain and CPO organizations. Carbon Footprint Reduction is the right thing to do, but challenges such as **Financial** (carbon credit value, carbon off-set value, implementation costs), **Information Technology** (stand alone or enterprise solution), **Methodology** (product level strategy, business unit strategy), **Supply Management** (supplier development, global travel category management strategy), and **Reporting** (federal, state, local, foreign government and/or third Party responsibilities) are key topics that must be addressed during the initial planning process. As a point of emphasis, the three most important chal-

lenges for most forward thinking enterprises are forecasting the future of the US Carbon Trading Market, US Carbon Offset Costs, and the contractor's approach to GHG Implementation Methodology.

IMPLICATIONS

Is everyone on board? The corporate survey mentioned above noted that improving environmental supply chain activities wasn't a top priority. If the survey were taken today, would the results be different? Not likely. Consequences for not integrating an initial 2010 GHG strategy, which includes strategic planning, GHG measurement, implementation, monitoring, and reporting, could impact mid-term sourcing decisions and strategic relationships, as well as most logistics costs in the coming years. Other implications for contractors who support multiple agencies could have severe internal cost repercussion as well.

THE BIG PAYOFF

By adopting the concepts highlighted in this article, an enterprise can quickly get its arms around the new Federal Environmental, Energy, and Economic Performance reality. In the near-term, contractors can benefit from carving out time for carbon and water footprint planning and measuring. What's the benefit? As Federal Agencies reduce their GHG and Water Footprints by 17% and 2%, respectively, the tier 1 and tier 2 contractors will reduce their footprints and internal costs as well. When is the planned benefit? By integrating this initiative into the 2010 Strategic Plan, an enterprise could see benefits in late 2010 or early 2011, a one-year ROI. Now is the time to get on board and improve our environment as well reduce and secure internal costs savings. **DTJ**

John Wilkerson is Vice President and Global Supply Chain & Sustainability Practice Leader at Bellwether Services, a Strategic Management consultancy and Service Disabled Veteran Business offering high-performance solutions across numerous sectors. Wilkerson is a retired military officer and respected Supply Chain, Strategic Sourcing, Manufacturing, IT, and Operational Excellence expert and is writing the 2nd Edition of the Green Supply Chain Management Professional Development Series. He currently serves as the Vice Chair, Education & Training, for the Atlanta Chapter of the NDTA.



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Tuesday, March 9
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Wednesday, March 10
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Thursday, March 11 and Friday, March 12
Tack-On Meetings (TBA)

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